

2. THE ACTIVITY OF THE BANK OF ALBANIA

2.1. MONETARY POLICY

According to the Law “On the Bank of Albania”, our monetary policy is formulated and implemented for the purpose of achieving and maintaining price stability. The Monetary Policy Document, which details the objectives, explains the principles and lays out monetary policy strategy, defines price stability as keeping the consumer price inflation rate at 3%, in the medium term. Through fulfilment of this objective, the Bank of Albania contributes to stable development of the economy and improvement in the welfare of Albanian citizens.

The Supervisory Council of the Bank of Albania makes monetary policy decisions. These decisions are based on the contemporary framework of analysis and forecast. This framework makes use of all available information and is based on tested econometric models and the best practices of central banking.

The Albanian economy experienced another challenging year in 2022. The fast-soaring inflation, driven mainly by an upsurge in prices across global markets after the war in Ukraine, affected every aspect of the domestic economic and financial activity. This was reflected as intensified uncertainty, increased production costs for enterprises, a rise on households’ cost of living, and tightened financing conditions for both the public and private sector.

Nonetheless, the Albanian economy’s resilience against these shocks improved. The performance of inflation was kept under control. The volume of economic activity and level of employment continued to increase. The private sector’s balance sheets recorded an improvement, while the main indicators of financial stability and banking system soundness remained solid. These dynamics reflect the economy’s broad growth base, sound financial balances, the private sector’s flexibility, as well as the monetary and fiscal policies’ adequate response.

High levels of external inflationary pressure, sustainable economic growth, and a gradual strengthening of internal inflationary pressures triggered a change in the direction of the monetary policy course. Since March, the BoA has embarked on a normalisation process in its monetary policy stance, which it deemed necessary for the control of inflation in the short term, and for its return to target within the medium term. This will help maintain overall economic and financial equilibriums, preserve the value of savings and wages, protect households’ purchasing power, and enhance the long-term well-being of Albanian society.



2.1.1 MONETARY POLICY IN 2022

The Albanian economy experienced a positive boost at the beginning of 2022. The losses suffered from the pandemic, which affected both the volume of economic activity and employment levels, were recovered fully during 2021. Households and enterprises' balance sheets improved and inflation was on a gradual trajectory of converging to the target.

However, Russia's invasion of Ukraine that started in February 2022, and the sanctions imposed on Russia engendered a new economic reality. This reality brought a rapid increase in food and energy prices, heightened uncertainty, as well as tighter financial conditions, reflecting interest rate rises by central banks.

Albania could not escape this reality. Economic activity decelerated rapidly in the third quarter, whereas inflation started to go up reaching the highest levels in the past two decades.

In 2022, the average inflation was 6.7%, significantly up from the 2.0% recorded in the previous year. The elevated inflation was initially urged by an overall upswing in prices of goods in international markets, particularly in food and oil prices. Later, external inflationary pressures spilled over to higher production costs and domestic inflationary pressures. Consequently, the increase in domestic prices was broadly based and relatively stable. These features are illustrated by a rapid increase in the core inflation¹, which recorded high historical levels, fluctuating between 5-6% over the course of the year. In addition, this development reflected the positive performance of the domestic economic environment, characterised by a stable consumer demand and a robust labour market.

Despite the upswing in prices, the Albanian economy demonstrated good resilience against the shock. Albanian consumption, investments and exports rose, reflecting the flexibility and soundness of the private sector's balance sheets, on the one hand, and good coordination between stimulating monetary and fiscal policies, on the other. According to INSTAT data, economic activity in Albania grew by 4.2% on average in the first three quarters of 2022, with good sectoral distribution. However, the pace of growth fluctuated over the quarters and experienced a decelerating trend over the year, reflecting the rapid intensification of uncertainties in the second quarter and the comparative base effect, respectively.

The increase in demand and production underpinned growth in both employment and wages. Employment and participation in the labour force edged up, while the unemployment rate dropped to 10.6% in 2022 Q3, the lowest level recorded since this indicator was first measured. The higher demand for labour force and notable increasing labour shortages were translated into a

¹ Core inflation reflects the performance of more stable prices in the CPI basket.



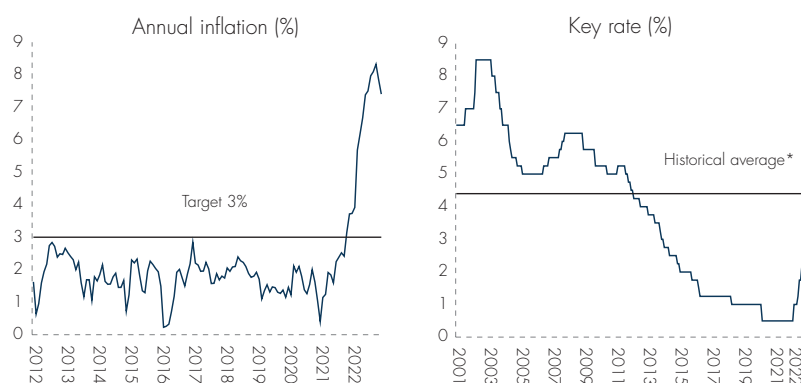
fast growth of wages. Not least, this fast growth was prominent in the private sector, where wages were up by 11.6% on average, in the first nine months of 2022.

The positive performance in the labour market and wages cushioned household's income, in addition to establishing the premises for more stable inflationary pressures. In view of this new economic context, the BoA assessed that high and persistent inflation remains the major challenge to the Albanian economy.

Pursuant to its legal mandate of price stability, the BoA started the normalisation of the monetary policy stance in 2022. This normalisation was realised by raising the key interest rate from 0.5%, at the beginning of the year, to 2.75% at the end of 2022. In the same vein, the BoA communicated its normalisation strategy by emphasizing three of its main features. First, normalisation was and remains necessary for inflation to return to its target, in a stable manner. Second, the normalisation path will be data-driven. Third, despite normalisation, the monetary policy stance continues to remain stimulating to the growth of aggregate demand, while providing a better platform for the sustainable and long-term growth of the country. Forward guidance helped in reducing uncertainties across markets and in better anchoring inflationary expectations.

The steps toward the normalisation of the monetary policy were also underpinned by the adoption of a consolidated fiscal policy. In the face of mounting inflationary pressures, the monetary and fiscal policy responded to reduce these pressures, while maintaining the macroeconomic equilibriums and helping to dampen the shocks.

Chart 1 Inflation and policy rate (in %)



*Calculated by excluding 2020-2021, when the policy rate was cut to extremely low levels.

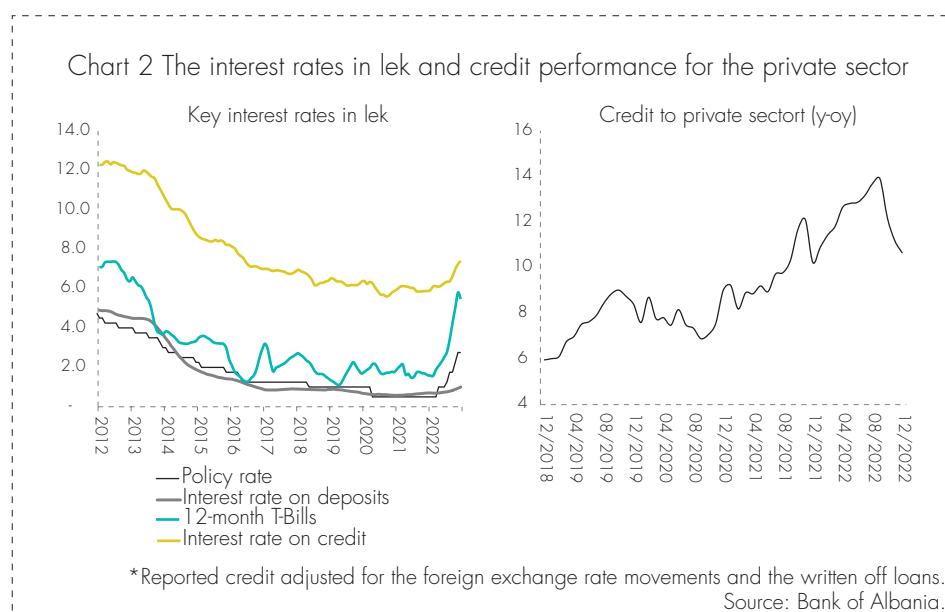
Source: INSTAT and the BoA.

The normalisation of the monetary policy stance was reflected in our financial market. Transmission of the monetary policy was immediate and complete



to the interbank market; rapid to the government securities market; and is still in progress in the credit and deposit market. The raise in the key interest rate contributed to preserving the attractiveness of savings instruments in lek, despite the aggressive rise in the interest rate of the euro chosen by the ECB. In partial reflection of this, the lek deepened its appreciating trend against the euro over the year, given also the high inflows of foreign currency. This performance helped to absorb part of external shocks on inflation.

The financial market ran normally in 2022; this market remained liquid and with contained risk premia. Although interest rates rose, credit flows continued to finance the activity of the private sector. The credit volume for this sector grew by 12.3% on average in 2022, from 9.8% in the previous year. This credit has financed the consumption and investments of households and enterprises, while also fulfilling their need for liquid financial assets. Meanwhile, the quality of credit portfolio continued to improve and the non-performing loans ratio fell to 5.0% in December, recording the lowest level in the last decade. The financial sustainability of the banking sector and its positive approach towards lending was conducive to the continued support of the economy with funding.



The initial effects of the monetary policy reaction are evident as the rapid upsurge in prices has slowed down. After rising progressively until October, inflation slowed down afterwards, dropping to 7.4% in December. The fall of inflation in the last two months of the year, signalled a turning point, which is expected to continue in 2023 as well. Our projections show that inflation will return to the Bank of Albania's target within the first half of 2024. The decline in inflation will be driven by the stabilisation of prices in global markets and the impact of the monetary policy stance normalisation (for further information read Box 1).



The gradual rise in the policy rate toward a neutral level will establish the premises for a better balance between demand and supply. Economic activity is expected to continue recording positive growth rates, despite the forecasted slowdown in the short run. Economic growth will continue to benefit from the private sector's balance sheets, a stable banking and financial environment, the continuous support of lending, as well as expanding export revenues. On the other hand, economic growth will be reflected in a further increase in wages and employment, which will help Albanian households to cushion price shocks.

* * *

Recent years have been hit by a series of major shocks that have generated a challenging economic environment. Under such conditions, it becomes ever more important to undertake monetary-policy decisions which are based on a robust and contemporary framework of analysis and forecast, as well as coordination with economic policies, effective public communication, and continuous dialogue with our national and international partners.

In this spirit, the BoA has continued its work throughout 2022 to further enhance its analysing, forecasting and research capacities in the field of monetary policy. In broad terms, the work has been focused on the following main directions:

- *Enriching and enhancing economic and financial analyses* by advancing research work forward, including new indicators, as well as conducting deeper study on specific economic events;
- *Enhancing the consistency of macroeconomic forecasts* by improving the predictive capabilities and complementing the base scenario forecasts with alternative risk scenarios, which enables the assessment of monetary-policy reaction options and the identification of the most efficient alternative available;
- *Ongoing public communication* through the periodical Monetary Policy Reports, which have been enriched with information on the most relevant economic events, press conferences, articles and publications;
- Close cooperation with international institutions and the Albanian government, particularly in regards to the Bank of Albania's engagements in the framework of the European integration process.

Working on these areas has contributed to drafting an appropriate monetary policy stance, which is steered toward fulfilling the objective of price stability.

Our 2023 priorities are focused on improvement of decision-making quality and the enhancement of monetary policy efficiency. They reflect the results achieved up until now, the best international practices, and structural adjustments to the economic and financial environment where we carry out our activity. The Bank of Albania will aim to improve and enrich its database and the econometric model portfolio. It will also work to enhance communication with the public.



BOX 1: MONETARY POLICY AND ITS IMPACT ON INFLATION

In 2022, the rapid surge in prices across global markets affected the Albanian economy, as inflation and the costs of production picked up. Expected inflation rose as well. In order to avoid the stable deviation of inflation from its target, the Bank of Albania reacted by increasing the policy rate in 2022, from 0.50% at the beginning of the year, to 2.75% at the end of it.

Normalisation of the monetary policy stance was a necessary decision to: curb the rising inflation; help inflation return to its target in the medium term; and ensure financial stability in Albania. The reaction of the Bank of Albania is in the same line with the behaviour of other central banks, which experienced a similar situation, although at different intensity.

This box shows that if the normalisation of monetary policy stance was not adopted, the inflation rate would have been on average 4.5 p.p. higher than in the 2022-2024 period, and the non-performing loans ratio would have been 4.2 p.p. higher than during 2022-2024, triggering a considerably high cost to the Albanian economy.

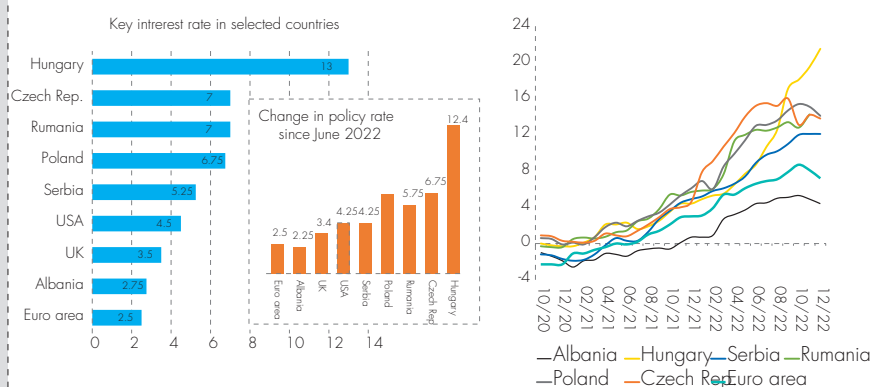
Inflation performance in the global arena and the response of central banks

Russia's invasion of Ukraine, in the first quarter of 2022, led to a sharp surge in prices globally. This was reflected in rising inflation all around the world, particularly in those countries where food and energy have considerable share in the consumption basket. Inflation rates were notably higher than the targeted rates of central banks, across most countries.

Although rising inflation was driven, initially, by supply-side shocks, the severity and its persistence in time had serious consequences for monetary policy at a global level. Soaring energy and commodity prices triggered higher production costs, and their effect spilled over to a broader range of prices. This, in combination with a strong labour market and higher inflationary expectations, suggested that the rapid surge in prices was not going to be short-lived.

Under these circumstances, the central banks of advanced economies started the normalisation process of the monetary policy, gradually reducing the extremely high monetary stimulus injected into the economy, which took the

Chart 3 Policy rate in some central banks (left) and inflation rate (right)

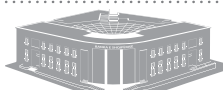


Notes: Policy rate until January 2023; changes to policy rate since 2021.

Source: Relevant central banks, staff's calculations.

Notes: Deviation of inflation from the central banks' target.

Source: Statistical institutions; staff's calculations.



form of significantly low rates as well as quantitative credit easing programmes.

The monetary policy of the Bank of Albania in 2022

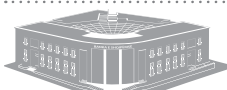
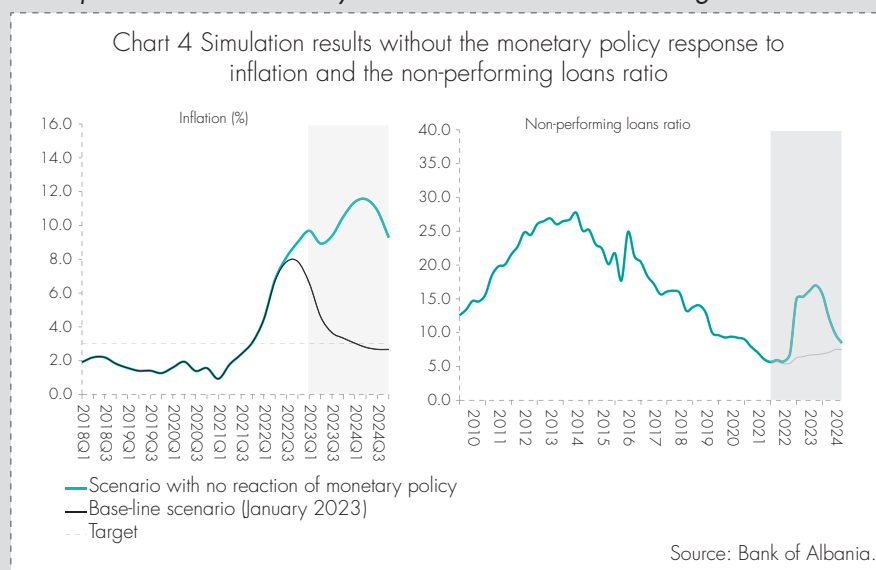
The acceleration of the inflation rate over the course of 2022 due to foreign supply-side shocks corresponded to a fast growth of aggregate demand in the Albania economy, a fall in unemployment and an increase in employment and wages, and higher capacity utilisation rate. The shock from import prices was persistent and its intensity was high. Its impact spread to other consumer goods prices and caused a rise in production costs and expected inflation. In these circumstances, anchoring inflationary expectations became extremely necessary in order to avert second-round effects of supply shocks.

The Bank of Albania started a normalisation stance of monetary policy in March 2022, by raising the policy rate to 1.00%, from its historical lowest level of 0.50%. Further normalisation continued with four other rounds of raising the policy rate, up to 2.75% as at end of 2022. The target of this monetary policy stance was to control inflationary expectations, stabilise the economy, and avert second-round effects of inflationary spirals¹.

The impact of monetary policy normalisation on Albania: Methodology and Results

In order to assess the impact of the monetary policy normalisation course in 2022, we have carried out empirical simulations through the Medium-term Projection Model^{II} (MPM), used to generate macroeconomic projections and guide decision-making in relation to the monetary policy of the Bank of Albania. Its goal is to illustrate the behaviour of key macroeconomic variables when the monetary policy reaction fails. This simulation is later compared to the basic medium-term projection scenario, which also includes the monetary policy effects, in order to identify the direct impact of the latter more clearly.^{III}

Assessments confirm that the timely response of the monetary policy in 2022, mitigated inflationary expectations, gave an appreciating impulse to the currency, and avoided the increase of non-performing loans. As soon as the time lags in transmission of monetary policy signals to the financial market and later to the real economy are factored, the monetary policy normalisation process will help stabilise the economy and inflation will return to target in 2024.



Results show that without the response of the monetary policy:

- The inflation rate would have been around 0.4 p.p. higher than in 2022, and 6.5 p.p. higher, on average, in 2023 and 2024.
- The lek exchange rate against the euro would have been 1.6% more depreciated during 2022, and on average 11% more depreciated in 2023-2024.
- The weakening of the exchange rate would drive non-performing loans up, assessed at 1.4 percentage points in 2022, and 5.6 p.p. on average in 2023 and 2024.

These results show that monetary policy normalisation has had measurable benefits to the monetary and financial stability of the country. By the same token, they suggest that a delayed monetary policy response to inflationary pressures, would be much stronger and with higher costs to the Albanian economy.

ⁱ For a more detailed theoretical discussion of the channels of monetary policy impact on the economy see "Box 1: Monetary policy in Albania and its contribution to economic growth and inflation," the Annual Report 2020. https://www.bankofalbania.org/Politika_Monetare/Raportet_Periodike/Raporti_Tremujor_i_Politikes_Monetare_2016_II.html

ⁱⁱ Hledik, T.; Kika, E. & Mitre, O. (2021), The Albanian medium term projection model, Bank of Albania Working Paper, 45(84) https://www.bankofalbania.org/rc/doc/Hledik_Kika_Mitre_The_Albanian_Medium_Term_Projection_Model_18790.pdf

ⁱⁱⁱ We have outlined an interactive process in order to conclude with this parallel scenario of the history of the Albanian economy and to compare it with the factual results and basic macroeconomic projections.

ECONOMIC ACTIVITY

The year 2022 posed a challenge to both the Albanian and global economies. Imbalances between demand and supply in global markets, production chains issues, and the economic consequences of the military conflict in Ukraine, were reflected in rising prices, tighter financing conditions, and higher uncertainties in both the domestic and external environment.

However, despite this defying environment, the economic activity in Albania continued to grow and improve over 2022. The Albanian economy showed a high degree of resilience, recording relatively moderate levels of inflation, broadly-based economic growth, higher employment and wages, as well as an improvement in the fiscal and external balances of Albania. These indicators are encouraging for the future.

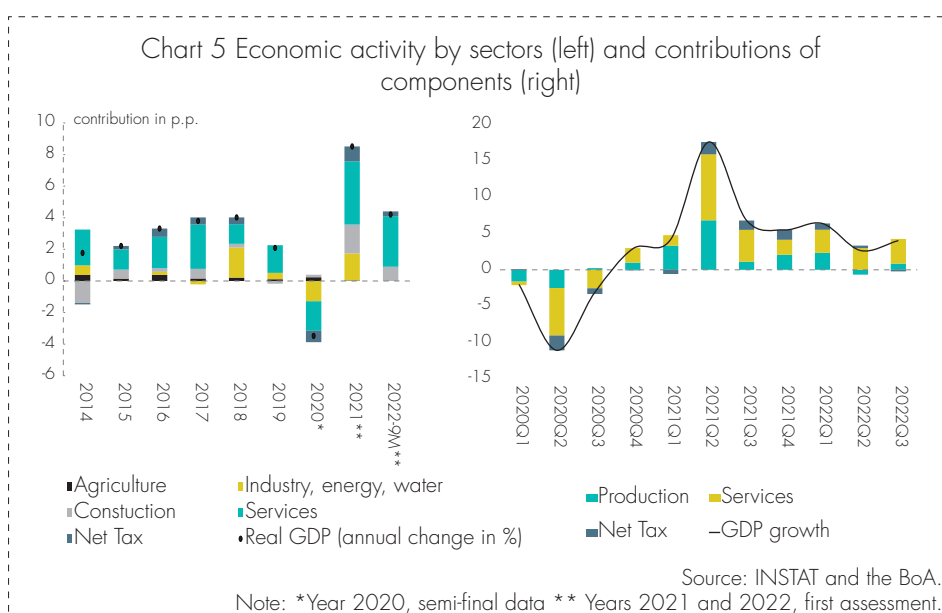
Nevertheless, the Albanian economy is still suffering the consequences of the shock that will persist in the future. Under these circumstances, the prudent policies of the public sector, such as the monetary policy stance normalisation, fiscal consolidation and financial risks management, as well as the attention



that the private sector pays to controlling costs, growth of productivity and increasing the soundness of balance sheets', remain pertinent.

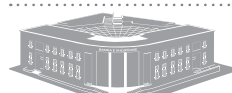
Gross Domestic Product expanded by 4.2% in the first nine months of 2022, following its increase by 8.5% in 2021². Growth was driven mainly by expansion in the services and production sectors, whereas agriculture and industry experienced a slower and more volatile performance.

The services sector contributed by 3.2 percentage points to economic growth in the first three quarters of 2022. The recorded growth was driven mainly by the "Trade, transport and accommodation" branch, with the largest impact from the sub-branch of "Accommodation", which reflected the good performance of tourism and related activities, followed by the branches of "Trade" and "Real estate".



The manufacturing sector provided an average contribution to economic growth of 0.8 percentage point in the first three quarters of 2022. This sector experienced a high variation in growth rates from one quarter to the other. The contribution of production to annual growth fluctuated by quarters, from 2.3 to -0.7 and 0.8 percentage point, respectively. These fluctuations reflect almost entirely the developments in "Construction". The growth rates recorded for this branch were 27% in Q1, -3.5% in Q2, and 10.7% in Q3. This performance reflected the response of the sector's businesses toward the new economic circumstances related to costs and supply chains for commodities, due to the war in Ukraine. The other production branches generated, on average, low contributions to "Agriculture" and negatively low ones to "Industry". The overall

² The information published by INSTAT on gross domestic product by the method of production and expenditures covers developments to the third quarter 2022, published on 23 December 2022. The growth recorded in 2021 reflected to a considerable measure the effect of the low comparative base of the first year of the COVID-19 pandemic.



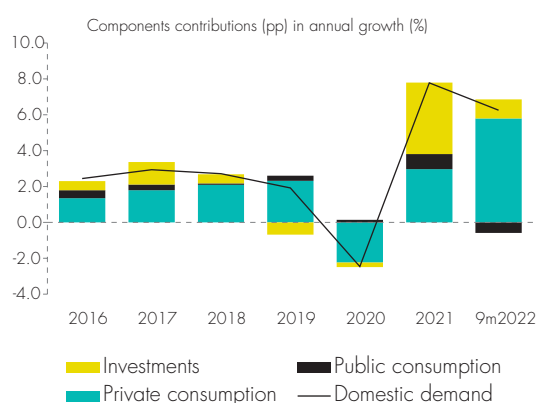
dynamic of "Industry" was dragged into negative territory due to the slowdown observed in the branches of "Mining" and "Energy".

Table 1 Real growth of GDP (in %) and contributions of components (in percentage points)

	2018	2019	2020	2021	2022 Q1	2022 Q2	2022 Q3
Agriculture	0.2	0.1	0.2	0.0	-0.1	0.0	0.1
Industry, energy, water	1.9	0.4	-1.3	1.7	0.4	-0.3	-0.2
Construction	0.2	-0.2	0.2	1.8	2.0	-0.4	1.0
Services	1.2	1.7	-1.9	4.0	3.2	3.0	3.4
Net taxes	0.4	0.0	-0.7	0.9	0.9	0.3	-0.2
Real growth of GDP	4.0	2.1	-3.5	8.5	6.4	2.6	4.0

Source: INSTAT and Bank of Albania's calculations.

Chart 6 Annual change of domestic demand by components



Source: INSTAT and BoA.

Private consumption mainly boosted the growth of domestic demand

Domestic demand grew by 6.1% in the first nine months of 2022. The main contributor was private consumption, which recorded a stable growth throughout the period. On the other hand, investments appeared volatile, reflecting the performance of construction activity. Thus, investments recorded a sharp rise in Q1 and Q3, but an annual decline in Q2.

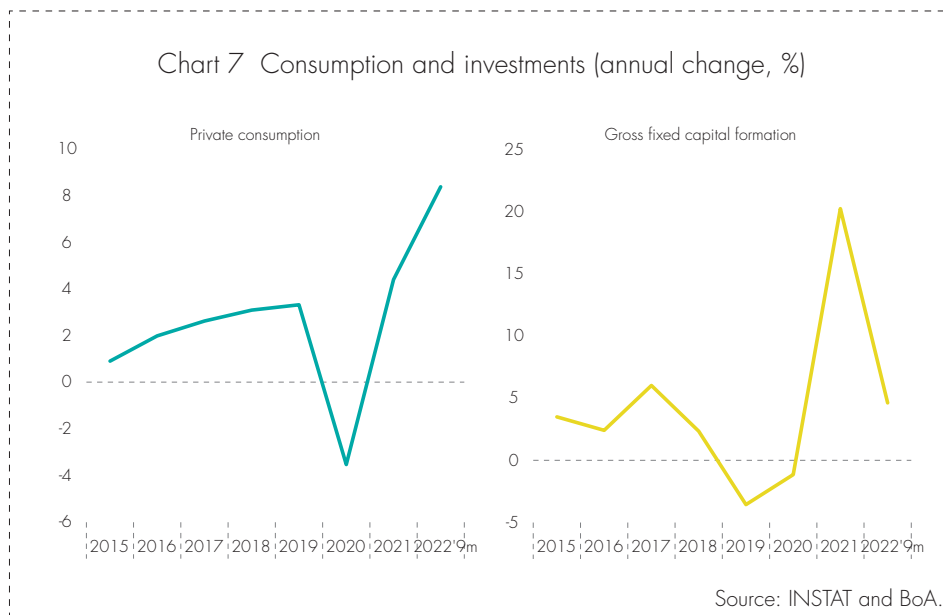
Private consumption grew by an average rate of 8.4% during the first three quarters of 2022

Private consumption registered a rapid growth in the first three quarters of the year, recording the highest rate in the past ten years and providing the main contribution, of 6.4 percentage points, to the expansion of aggregate demand. This performance reflected growth of employment and wages, increase of credit, continued favourable financing conditions, as well as sound Albanian households' balance sheets. In terms of composition, rising consumption was mostly in the form of higher spending on both durable consumer goods and services.

Investments grew by an average rate of 4.6% during the first three quarters of 2022

Investments continued to make a positive contribution to economic growth during 2022, albeit lower than in the previous year. The slowdown of investment growth is attributed to public investments, which provided a negative contribution during 2022, while private investments grew at a similar rate to that of 2021. The needs of enterprises to expand their capacities, increase of credit and continued favourable lending conditions coupled with the good financial situation of enterprises supported enterprises' growth in investments.



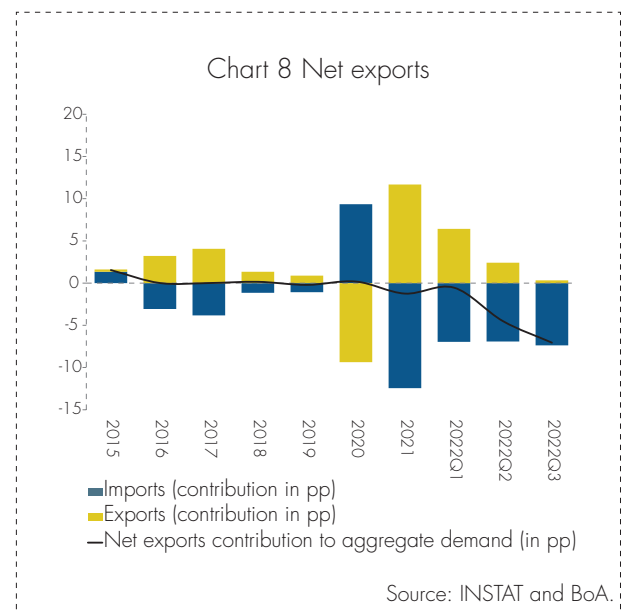


Net exports had a negative contribution to economic growth

Net exports generated an average contribution of -4.0 percentage points to economic growth, in the first nine months of 2022. The trade deficit expanded by 38.7% in real terms, reflecting the rise in real exports by 9.2%, and the expansion of imports in real terms by 17.2%.³

Although the export of goods and services has remained in positive territory, which reflected the higher interest for Albanian goods and services, soaring prices in international markets and a shortage of domestic supply for a series of import items, have caused their financial bill to increase rapidly, thus curtailing the growth rate.

Fiscal policy was consolidating during 2022, as both primary and overall budget deficits were reduced. This consolidation had a counter-cyclical nature, helping to control inflationary pressures. In the same line, it improved the sustainability of public finances and enhanced their ability to withstand future shocks.



The discretionary fiscal policy had a consolidating profile in 2022, as primary deficit was lower than in the previous year. Fiscal consolidation, standing at

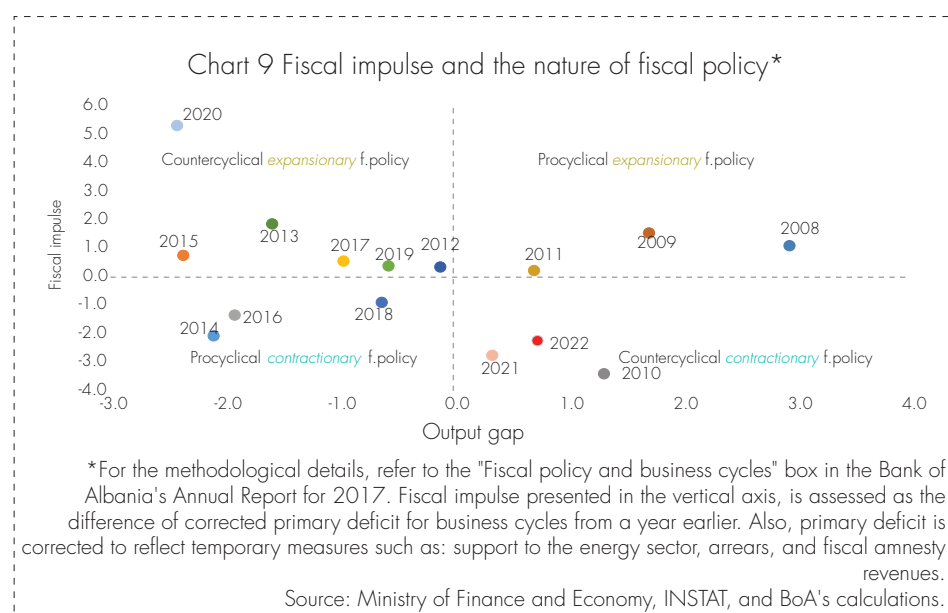
³ Both exports and imports recorded high nominal growths by 41.2% and 28.8%, respectively. The differences in real terms are related to the differing deflators. The much-higher deflators for export offset their real growth by 9.2%. Meanwhile, import deflators are lower, so real import growth stood at 17.2%. As a result, the contribution of foreign trade to growth is assessed as negative for the first nine months of 2022, particularly in the third quarter.



around 2.2% of GDP⁴, helped in containing the expansion pace of aggregate demand and mitigating inflationary pressures.

This consolidation took the shape of a fast increase in budget revenues driven mainly by rapidly soaring prices, while public spending, which focused mostly on supporting the energy sector, expanded at a slower pace. The aim of supporting this sector was to cushion the transmission of high energy prices from the international to the domestic energy market, to the benefit of the most vulnerable economic agents, such as households and small enterprises.

The budget deficit in 2022 was around ALL 78 billion, from ALL 84 billion, which was planned in the latest review. The fiscal deficit was estimated at around 3.6% of GDP, from 4.5% in the previous year. The entire deficit was realised in December, while the fiscal balance recorded positive values in the first eleven months of the year.

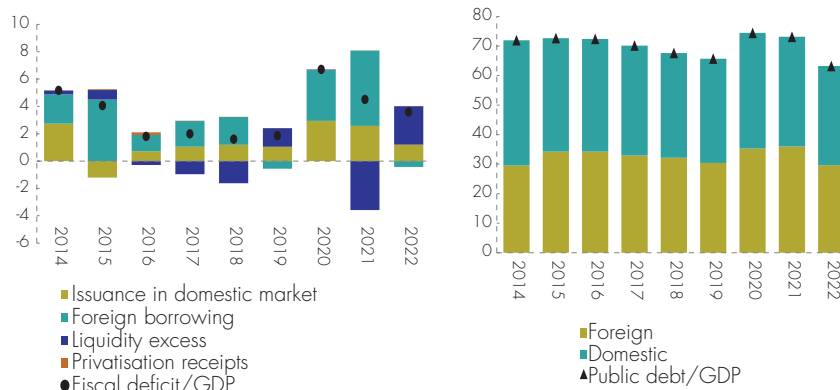


The deficit realized in 2022 was financed largely by the use of excess liquidity in foreign currency inherited from the previous year, while securities issued in the primary market funded around 33% of the budget deficit. In total, the government securities portfolio grew by ALL 26.3 billion, of which ALL 30.1 billion was denominated in lek, and 3.8 billion were securities in foreign currency. In contrast to previous years, the additional borrowing from the domestic market was only in short-term securities, or T-bills with up-to-one-year maturity. Net external borrowing reduced by ALL 9.4 billion, or 0.4% of GDP, as a result of higher principal payments on foreign debt compared to foreign currency inflows used for financing the deficit.

⁴ The GDP of 2022 is calculated by the BoA.



Chart 10 Budget deficit and financing (left) and public debt ratio to GDP (right)*

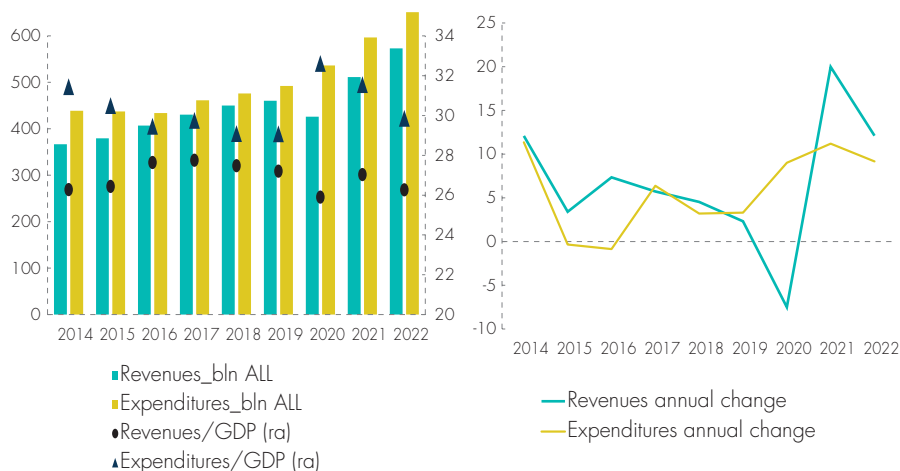


*Public debt data refer to the third quarter, as full disclosure of data from MoFE for 2022 is not complete.
Source: INSTAT, MFE and BoA's staff calculations.

The gross public debt to GDP ratio fell to 63.3% of GDP⁵, as at end of year, around 9.9 p.p. lower than the ratio assessed at the end of 2021. This decline is attributed to the fast growth of the economy in nominal terms, the appreciation of the domestic currency against the euro, as well as the fiscal consolidation. Domestic public debt was estimated at around 33.6% of GDP, from 37.2% recorded at the end of 2021. Foreign public debt in terms of GDP shrank by 6.4 p.p. from the end of 2021.

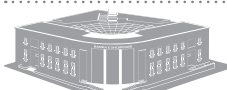
Budgeted expenditures in 2022 were around ALL 651 billion, up by 9.2% from the previous year. In terms of GDP, budgeted expenditures were assessed at 29.9%, from 31.6% in the previous year. Half of the increase in total expenditure is due to the support provided to the energy sector. The other items that contributed to higher expenditures were social insurance expenses,

Chart 11 Revenues and expenditures



Source: INSTAT, MFE and BoA's staff calculations.

⁵ BoA's GDP calculations.



which reflected the government's aid packages to protect the most vulnerable groups in society from rising prices, operational expenses, local government expenses, as well as interest payments on existing debt. The distribution of expenditures throughout the year continued to be uneven: around 21% of the annual expenditures were realised only in December.

Fiscal revenues amounted to ALL 573 billion, assessed at around 26.3% of GDP. In annual terms, revenues expanded by around 12.1%, where VAT revenues provided the main contribution, by around 5.9 p.p. Social insurance income, tax revenues, and personal income tax also had a positive contribution. The performance of VAT revenues reflects, in addition to the higher economic activity volume, the impact of the rapid rise in prices, both domestically and globally. Also, the positive performance of both social insurance and personal incomes, reflects the positive developments in the domestic labour market along with the increase in the minimum wage in Albania.

2.1.3 LABOUR MARKET

In 2022, the labour market was characterised by the fall of the unemployment rate to its lowest historical level and a fast wage growth

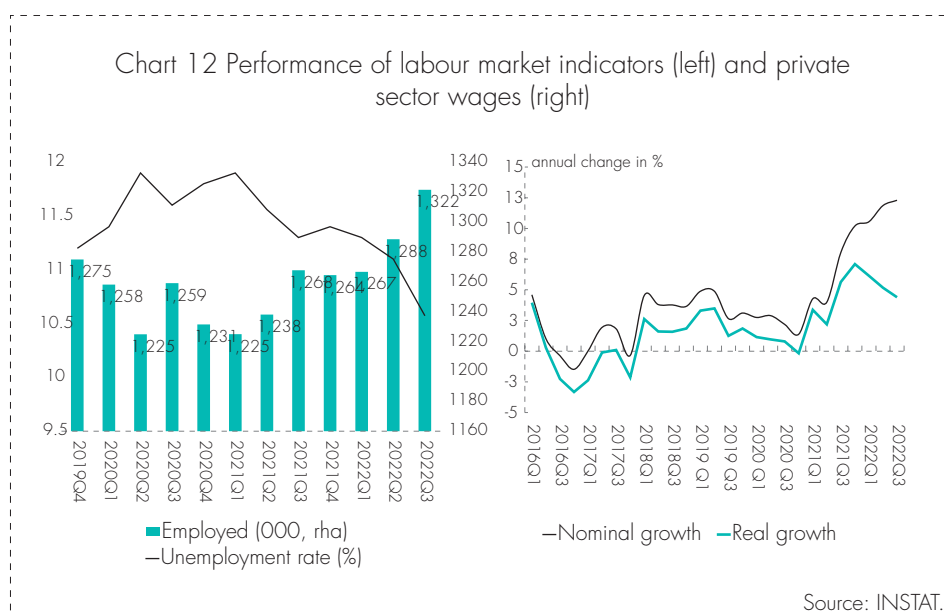
According to the Survey on Labour Force, employment rose by 3.9% during the first nine months of 2022, compared to only 0.5% in 2021. As expected, employment recovery was more delayed compared to economic growth in the post-pandemic period. The number of employed persons exceeded for the first time the last level of 2019 in the second quarter of 2022, further expanding during the third quarter. Contributions are broadly-based, but the return of positive increasing rates in employment in the sector of "Agriculture" accelerated the growth of total employment, as well.

The expansion of employment was reflected in a considerably lower unemployment rate. This rate dropped to 10.6% in the third quarter, down by 0.7 p.p. in annual terms. Also, the number of unemployed persons fell to a historically low level. During this time, labour market data show that participation in the labour force has gone up, while inactivity has gone down. In terms of employment structure by age-group, higher employment was supported by the expansion of jobs for 30-64 years-old and over 65 years-old, against the decline in the share of the younger age-group of 15-29 years-old to total employment, in the labour force and the working age population.

The improvement of the labour market indicator has put considerable pressure on wages. Enterprises report difficulties in filling their vacancies, both in terms of quality and quantity, adding to wage growth pressures beyond the subsequent rises in the minimum wage. The annual growth rate of the nominal wage for the overall economy was 7.3%, and for the private sector 11.6%, in the first nine



months of 2022. The growth in wages is broadly-based, in both economic sectors terms and wage level and degree of qualification terms.



Nevertheless, rising inflation has triggered a deceleration in the growth rate of the real wage. Thus, the rise in real wage is calculated at 1.0% for the overall economy, from 4.3% in 2021. Meanwhile, the rise in the private sector was 5.2%, slowing down from the first to the third quarter.

2.1.4 INFLATION AND ITS DETERMINING FACTORS

Inflation increased sharply during 2022, averaging at 6.7%. The rapid surge in commodity prices in international markets due to the war in Ukraine, engendered a hike in global, regional and domestic inflation. The rise in global prices, though mitigated by appreciation of the domestic currency, had a significant impact on inflation, both directly, in the form of higher prices of imported consumer items, as well as indirectly, in the form of higher production costs and inflationary expectations. In the same vein, domestic inflationary pressures have picked up due to improvement of the cyclical position, fast absorption of free labour capacities, and a rapid growth of wages.

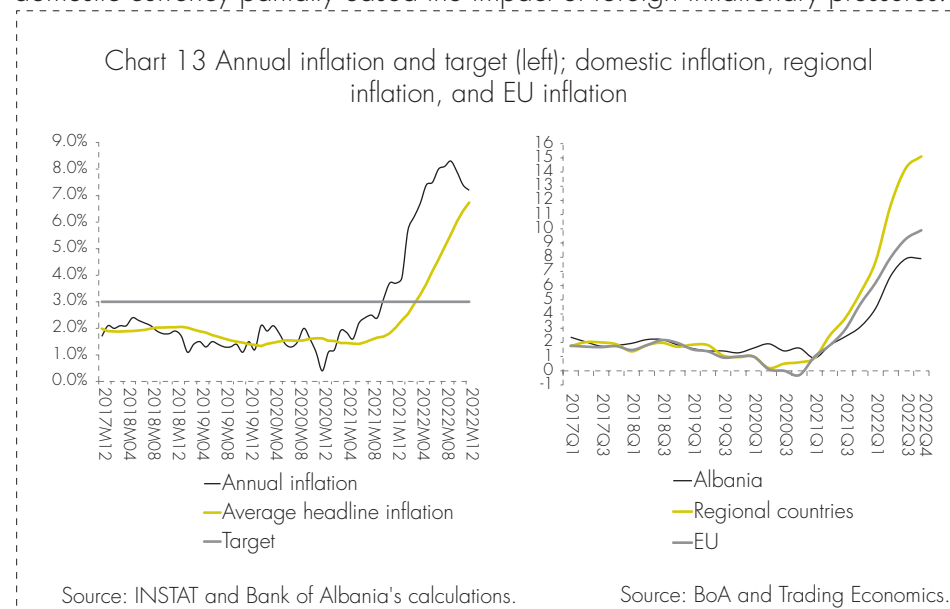
Inflation hit high historical levels during 2022, an average of around 6.7%, standing 4.7 percentage points above the value of the previous year. The inflation trajectory stood above the Bank of Albania's target of 3% throughout the year, reaching a historical peak in October (8.3%). March was the month during which inflation experienced the fastest rise, by 1.8 percentage points; this period corresponds to the price shock following the start of the Russian military aggression in Ukraine. Inflationary pressures intensified in the



successive months, as geopolitical tensions increased, the conflict escalated, and international sanctions were imposed on Russia. The crises, following the conflict was translated, inter alia, into the highest historical prices recorded for oil, gas, energy, industrial goods, grains, and food commodities.

These developments considerably increased the external inflationary pressures. At the same time, the recovery of domestic demand, tightened labour markets, and higher inflationary expectations, generated domestic inflationary pressures at a considerable level and with an intensified persistence. Consequently, core inflation recorded high values since March as well.

Although prices remained high, in the last two months of the year, inflation fell due to a deceleration in oil prices and a fall in transportation costs for goods. Inflation in Albania, compared to other countries, recorded lower values because energy prices for households remained unchanged, and the appreciation of domestic currency partially eased the impact of foreign inflationary pressures.



Inflation rates were elevated on the back of basket items, whose prices recorded sharp double-digit rises almost throughout the year, particularly in the group of food and energy goods.

Inflation remained notably above its target, since an ever-increasing number of CPI basket items shifted from low inflation levels towards those above 3%.⁶ On average, around 46% of basket items recorded an inflation rate that exceeded 3% in 2022; this share rose by 29 percentage points compared to the previous year. On the contrary, the share of the basket items with an inflation lower than

⁶ The assessment is based on the annual inflation data of CPI basket items pursuant to COICOP classification (at a two-digit level for a total number of 96 goods and services), for each of the annual inflation rate ranges: below 1%, 1-3%, and over 3%. The share to the total of 96 items is calculated each month based on the number of items in each inflation range.



1% shrank during this year (34%), compared to the previous year (56%). The basket items with inflation ranging between 1-3% also accounted for a lower share (20%), compared to the previous year (26%), although the difference recorded here was milder than in the extreme inflation ranges.

The **"Processed foods"** category continued to provide a considerable contribution in determining inflation (42% of headline inflation). The upswing in processed food prices in international markets affected the increase of prices in this category. This category's large contribution to inflation was driven mainly by the two-digit rise in prices in the sub-groups with a considerable weight on consumption such as "Bread and grains", "Dairy and eggs", "Oil and fat", which increased by 15.7%, 17%, and 24%, respectively. The **"Unprocessed foods"** category provided a higher contribution than in the previous year, but the growth rate was lower than in the group of other food items⁷. Within this category, the contribution of the Fruits and Vegetables sub-groups were on a downward trend, in certain months, reflecting additional domestic supply effects.

The other categories, as well, recorded higher contributions than a year earlier. Comparatively, the contribution of the **"Non-food items"** category was significantly higher, reflecting the rise in oil prices in both domestic and foreign markets. This category accounted for 10% of headline inflation in the previous year, while in 2022 this contribution doubled. Given the apparent deceleration in fuel prices during November and December⁸, the contribution of the relevant category shifted, falling progressively compared to the previous year. The rest of inflation consisted of prices of more stable components of inflation including **"Services"**, **"Housing"** and **"Durable consumer goods"**.

Table 2 Contribution of key items to annual inflation (p.p.)

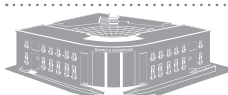
	Average contributions by year					Average contributions by quarter - 2022				Annual inflation 2022 (in %)
	2017	2018	2019	2020	2021	T1	T2	T3	T4	
Processed food	0.2	0.2	0.5	0.6	0.6	1.4	3.0	3.5	3.4	12.8
Unprocessed foods	1.0	0.9	0.9	0.8	0.8	1.5	1.2	1.7	1.9	8.4
Services	0.1	0.1	0.1	0.2	0.2	0.4	0.5	0.6	0.5	3.1
Goods with regulated prices	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.5
Housing (rent)	0.3	0.1	0.2	0.1	0.1	0.1	0.2	0.3	0.4	2.4
Non-food consumer goods	0.3	0.1	-0.2	0.2	0.2	1.0	1.6	1.5	1.2	9.9
Durable consumer goods	0.0	0.0	0.1	0.1	0.1	0.0	0.2	0.3	0.4	3.4
Inflation (%)	2.0	1.4	1.6	2.0	2.0	4.4	6.7	7.9	7.9	6.7

Source: INSTAT and BoA.

The recovery of demand and the labour market pushed up the prices of a wider range of products. Not least, a considerable hike was recorded in the services sector during the summer period, for activities related mainly to tourism.

⁷ The average contribution of "Unprocessed foods" doubled in 2022, compared to 2021. Whereas, the contribution of the "Processed foods" category increased by almost five-folds in 2022, compared to the previous year.

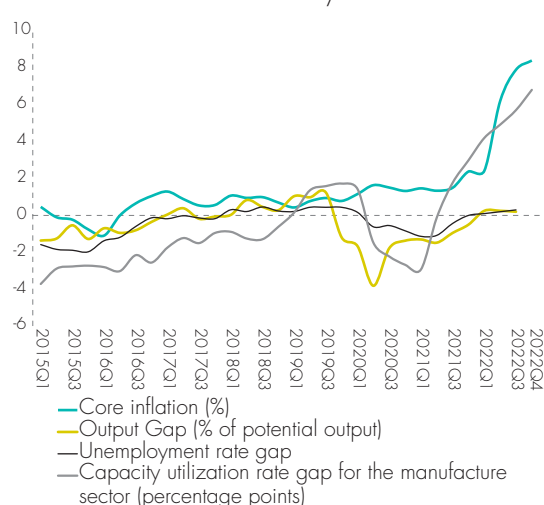
⁸ In November-December, the annual inflation of the "Services for personal transportation vehicles" category, where fuel accounts for the largest share, was around 9% on average, after the double-digit rises of around 24% on average during January 2021-October 2022 period.



The prices of tourist packages, transportation services, hotels, restaurants, and bars stand out. The categories of “Durable consumer goods” and “Housing” provided a higher contribution, reflecting the impact from climbing costs of commodities and construction. As energy prices for households remained intact, regulated prices in this category did not add contributions to headline inflation, during 2022.

The cyclical position has continued to improve during the first nine months of 2022, reflected in high rates of core inflation

Chart 14 Indicators of cyclical situation



Source: INSTAT and Bank of Albania's calculations.

Stable economic growth has driven to an improvement of the cyclical position during 2022. Economic growth was high, while the unemployment rate has been declining, and the capacity utilisation rate remained considerably above the long-term average. These developments were reflected in high core inflation rates throughout 2022.

Inflation rose progressively, as domestic contributions expanded in 2022

In addition to the cyclical improvement, the domestic economy faced intensified external inflationary pressures, over the course of 2022. The upward inflation trajectory received strong impulses from imports during the first months of 2022, due to the crises in commodity prices following the conflict in

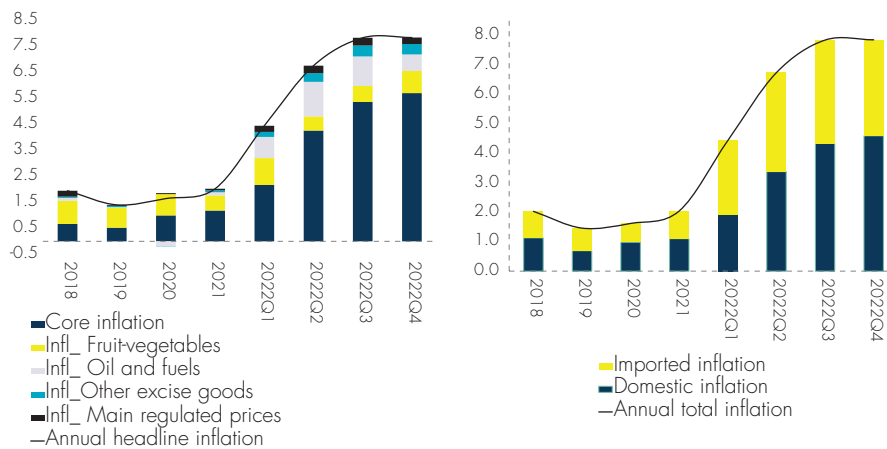
Ukraine. The imported element accelerated considerably, becoming dominant in the values of headline inflation. The high international prices also affected those items in the CPI basket with a more stable inflation, significantly expanding the domestic and core inflation. Increased costs of production, services and labour coupled with inflation expectations transmitted the spread of rising effects. Thus, contributions from domestic and more stable components of inflation, gained traction during the second half of 2022.

Core inflation was around an average of 6.5%, standing 4.8 percentage points above the 2021 average. The elevated inflationary pressures were also verified by the net core inflation component,⁹ which increased from 1.5% in the first quarter, to 3.8% in the last quarter. For the same periods, domestic inflation registered 2.5% and 6%, with a relevant contribution of 43% and 58%, respectively, to the formation of headline inflation. Hence, the intensity of imported inflation - from a dominant contribution of 57% in the beginning of the year – fell to 42% at the end of 2022.

⁹ Net core inflation excludes the processed foods sub-groups (including bread and grains) from the calculation of core inflation. Net core inflation takes into account 44.1% of the CPI basket of 2022.



Chart 15 Decomposition of inflation long and short-term components (left) and domestic and imported (right)



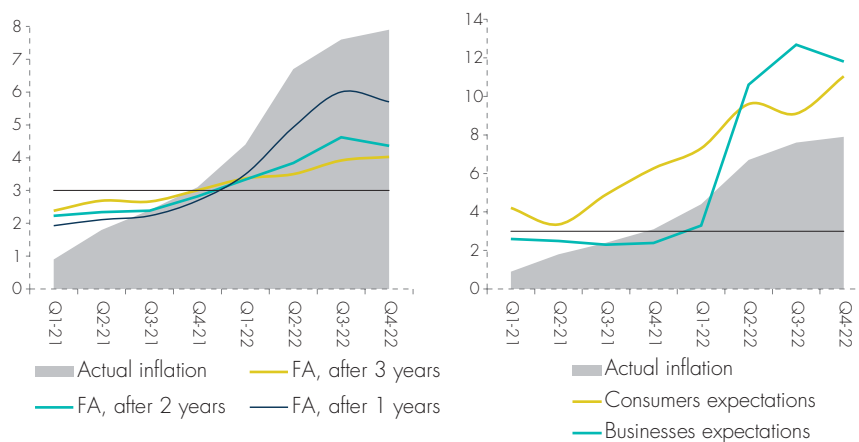
Source: INSTAT and Bank of Albania's calculations.

Inflation developments in 2022 affirmed the Bank of Albania's assessments that the sharp increase of inflation was not going to be transitional, but one with longer term consequences on the economy, requiring, thus, normalisation of the monetary policy stance.

Inflation expectations increased gradually over 2022

Inflation expectations¹⁰ were revised upward during 2022. Enterprises recorded the highest increase, with inflation expectations up at 9.9%, from 2.4% in the previous year. In the same vein, the short-term expectations of consumers and financial agents were revised upwards, at 4.6 p.p. and 2.8 p.p., respectively. Meanwhile, financial agents' inflation expectations in the medium-term horizon,

Chart 16 The performance of economic agents' expectations for inflation



Source: BoA.

¹⁰ Inflation expectations are calculated through direct observations made on enterprises, consumers, and financial agents.



were stable and closer to the target. After three years, financial agents expect inflation to average 3.7%, 1 percentage point higher than the expectations in 2021. The quarterly dynamic of expectations signals that their rising trend will subside by the end of 2022.

2.1.5 BALANCE OF PAYMENTS AND EXTERNAL POSITION OF THE ECONOMY

Current deficit improved in the first nine months of 2022, in both nominal terms and in relation to GDP. The increase in the export of goods and services provided the main contribution to the tightening of current deficit. Also, financing was ensured mainly by Foreign Direct Investments (FDIs), which grew in double-digit terms during this period. At the same time, the gross external debt ratio to GDP appears lower, while indicators measuring both long-term solvency and liquidity have improved.

The current deficit ratio to GDP dropped to 4.6% for the first nine months of 2022, from 5.5% in the same period in 2021

The contraction of current deficit was driven mainly by the increase of tourism inflows. In the first nine months of 2022, these inflows expanded by 48.8%, and total services grew by 39.1%. The current levels recorded exceeded the pre-pandemic ones (2019). This satisfactory performance is related, among other factors, to the positive effects of tourism, due to the complete lifting of restrictions imposed on the international movement of travellers. In addition to Albanian exports, the imports of services also benefited from this phenomenon. Imports of tourism services expanded by 68.5% during the same period and stand above the pre-pandemic levels as well.

Also, exports and imports of goods recorded high annual growth rates. These developments reflect mainly the rapid rise of global prices after the Russian military attack on Ukraine. The growth of imports had a larger impact compared to the export growth. Importing activity was also influenced by a rising demand for energy imports, due to challenges faced by domestic production in the first nine months of 2022. As a result, the trade deficit of goods expanded by 16.3% in annual terms. On the other hand, the positive impact from the services account was more significant, driving the overall trade deficit of goods and services down by 4.7%, during the same period.

As regards income, the deficit in the primary income account deteriorated, whereas the level of secondary income appears almost unchanged. The outflow of primary income expanded considerably, due to the flow of income from direct investments. These flows reflect the good performance of FDIs in the last years, and the improvement of economic activity in Albania. The income inflows from seasonal employment were upward, reflecting the rebound of these flows in the post-pandemic period. However, they were not able to offset the outflow impact.



As regards secondary income, remittances continue to register high growth rates. Inflows expanded by 9.8% in annual terms, during the first nine months of 2022. On the other hand, "General Government" and other private flows have contracted, offsetting the impact of remittances. As a result, the account surplus rose by only 0.3% during the same period.

FDIs were the main source of financing the current deficit

The inflows of FDIs expanded by 34.8% during the first nine months of 2022. The growth was mainly underpinned by the sectors of "Real estate," "Energy," "Mining" and "Manufacturing," as well as other branches which had a positive broadly-based impact. The reinvestment of company's profits was the main source of FDIs during this period, reflecting the profitability of investments in the Albanian economy. The FDIs ratio to GDP accounted to 7.3%, up by 1.1 percentage points compared with the previous year.

External debt sustainability indicators improved in 2022

External debt stock is estimated at EUR 9.947 billion at the end of 2022 Q3, with an annual growth rate of 10.9%. Stock grew mainly due to the issuance of a Eurobond of EUR 650 million in 2021 Q4. Though the stock expanded, the debt ratio to nominal GDP stood at 56.3%, down by 3.7 percentage points in annual terms. "General Government" continues to be the main holder of external debt, accounting for 48.5% of total. In terms of time structure, the long-term debt is dominant, accounting for around 91.0% of total.

The considerable expansion in both exporting flows and fiscal revenues, also due to rising prices during 2022, has enabled an improvement of solvency indicators. The debt stock ratio to the exports of goods and services dropped to 127.1% at the end of 2022 Q3, from 162.6% at the end of 2021. Also, the ratio of foreign debt stock to fiscal revenues fell to 204.8%, from 230.5% at the end of 2021.

At the same time, the stock of international reserve was sufficient to counter the short-term pressures of external debt. As at end-December 2022, the reserve was sufficient to cover 7.1 months of imports of goods and services, or 355% of the short-term gross external debt.

Table 3 Main indicators of balance of payments and external debt (in % to GDP)

	2015	2016	2017	2018	2019	2020	2021	2022 Q1-Q3
Current deficit	8.6	7.6	7.5	6.7	7.9	8.7	7.6	4.6
Trade Deficit	17.3	16.8	15.1	13.7	13.7	14.5	13.2	8.6
Exports	27.3	29.0	31.6	31.6	31.3	22.7	30.8	37.9
Imports	44.6	45.8	46.7	45.3	45.0	37.3	43.9	46.5
Remittance inflows	5.8	5.7	5.5	5.2	5.1	5.1	4.9	4.4
FDI inflows	8.7	8.8	7.8	7.9	7.8	7.1	6.7	7.3
External debt	74.4	73.5	68.7	65.0	59.9	64.4	63.2	56.3

Source: BOA.



2.1.6 FINANCIAL MARKETS AND MONETARY INDICATORS

The rapid increase in inflation triggered the normalisation of the monetary policy stance in 2022, in both Albania and the world. This shift was reflected in rising interest rates for the entire range of financial market instruments, although this upward trend was not uniform across all market segments.

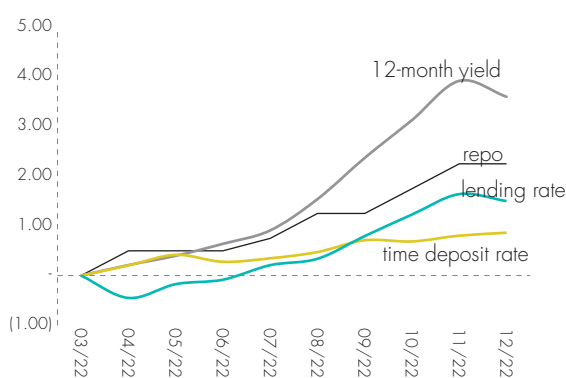
However, although trending upwards, interest rates and financing conditions have remained stimulating over the course of 2022. Credit to the private sector continued to expand during the year, accelerating in the first three quarters and decelerating in the fourth quarter. Credit growth was broadly based, covering the needs of Albanian households and enterprises for short- and long-term financing.

Overall, financial markets in Albania were relatively quiet, although their volatility was more pronounced compared to the previous years. In particular, the foreign exchange market was characterised by an appreciating performance of the lek against the euro, as a response to the improvement of the external position of the economy.

The normalisation of the monetary policy stance was transmitted into higher overall interest rates in the financial market

Monetary policy signals, in the form of successive policy rate rises, were transmitted effectively thanks to the soundness of the banking system, an adequate liquidity level, and low risk premia of financial markets. Nonetheless, the transmission was uneven across different segments of the economy. It was immediate and complete to the interest rates in the interbank market, an important precondition for the monetary policy transmission to the economy. Further, the response of deposit rates was slower, whereas credit rates rose at a faster pace, following more closely the policy rate changes, which is a typical characteristic of a rising cycle. Meanwhile, yields on government securities experienced an increased volatility. These yields rose rapidly during the first three quarters, as a response to higher uncertainties felt from market participants. Later, these uncertainties were contained, the primary market was stabilised in the fourth quarter, and yields started to adjust downwards.

Chart 17 Cumulative adjustments to interest rates in lek following the start of the monetary policy normalisation cycle



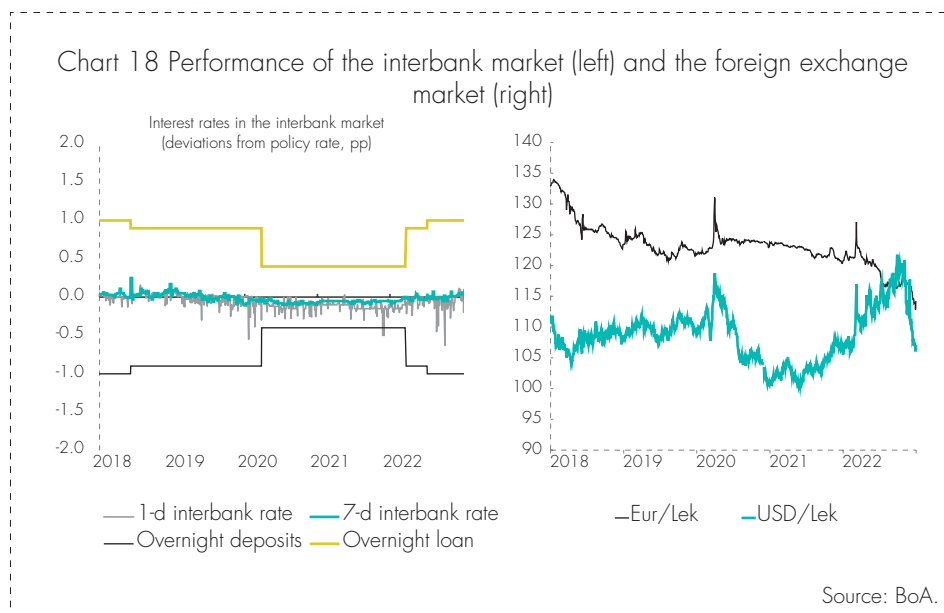
Source: BoA.

Notes: The cumulative adjustment to credit rate are expressed in three-quarters moving average.

Liquidity conditions in the interbank market were adequate, as transmission of the higher policy rate and achievement of the operational objective of the monetary policy were rendered possible



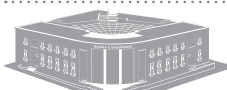
Interest rates in the interbank market were immediately transmitted to policy rate changes, fluctuating closely to its value. Their performance reflected the lack of liquidity pressures in the currency market and the improvement of short-term liquidity management by the banking system. The trading volume in this market has fluctuated close to the level of the previous year, for both the 7-day and 1-day segments. The Bank of Albania has continued to carry out regular liquidity injection operations through its main instrument, the one-week repo. In addition to the weekly repos, 3-month maturity injections have also been carried out. The banking system's demand for liquidity has been slightly higher than in the previous year¹¹.



The foreign exchange market appeared calm, characterised by an appreciating performance of lek against the euro

The foreign exchange market was dominated by an appreciating trend of lek during 2022, reflecting an improvement of the balance of payments, normalisation of the monetary policy stance, and a contained risk premia in the domestic financial market. The strengthening of lek started in the second quarter of the year. It intensified and has continued on the same path in the fourth quarter as well. On average, the euro/lek exchange rate fell to ALL 116.4 in the last quarter, from ALL 121.9 in the first quarter, and ALL 122.4 in 2021. The annual average appreciation deepened to 2.9% during this year, from 1.1% recorded in the previous year. The appreciating pressures were absorbed by the exchange rate market, without causing volatilities or shocks to the expectations of its participants, demonstrating that the degree of maturity and consolidation have risen.

¹¹ The liquidity offered in regular repo auctions has increased somewhat for the 7-day repo, whereas 3-month maturity injections have maintained the level of the previous year.



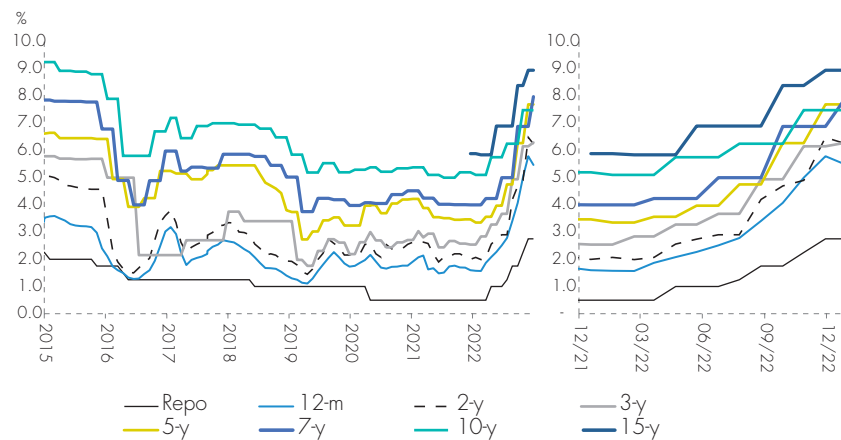
The performance of the lek exchange rate against the US dollar during 2022, reflected the strong appreciation of the latter in the global market. As the Fed adopted a more aggressive approach than the European Central Bank in raising interest rates, the US dollar strengthened continuously against the euro, which peaked in the third quarter of the year, and started to fall in the fourth quarter. In the domestic market, the US dollar was averagely quoted at ALL 113.2, from ALL 103.5 in the previous year, with an average lek depreciation of 9.3%.

Yields on government securities overreacted to additional uncertainties from rising inflation and rapid normalisation of the monetary policy, but they started to adjust in the last weeks of the year

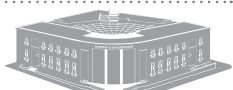
Yields on government bonds and T-bills surged significantly during 2022, beyond the transmission of the monetary policy normalisation. As at end of 2022, the 12-month yield was 5.5%, or 3.7 p.p. above the average of the previous year. Bonds with 2- to 7-year maturity experienced the same rise, while the 10-year bonds recorded a more contained hike.

The upward spike in yields, particularly more apparent in the second half of the year, reflected the higher perceived interest rate risk, given the rising inflation and the acclimatisation of the market operators to a low-rate environment. The resurgence of demand for government debt instruments was driven by deceleration of inflation in the last two months of the year, preservation of the same policy rate, and mitigation of future uncertainties. As a result, the increase of yields slowed down in November, and they started to fall in the consecutive weeks. The spread between yields and the policy rate, after the sharp increases in the third quarter, started to narrow and approach the average level of the previous years.

Chart 19 Performance of yields in the primary market

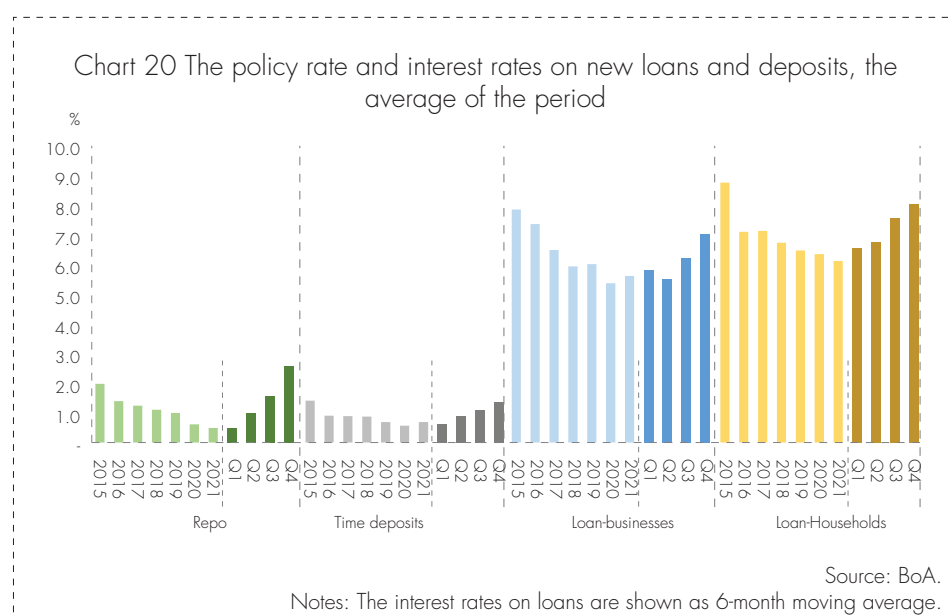


Source: BoA.



Interest rates on loans and deposits increased during 2022, as they responded to the rising policy rate, but their level remains supportive for the economic growth.

Following a period of decline and minimum levels, interest rates on loans and deposits increased, in 2022. The interest rates on time deposits in lek rose gradually after the first quarter of the year, reaching 1.4% in the fourth quarter, from 0.7% average recorded in 2021. The interest rate on credit in lek to households reflected, in full, changes in the policy rate. It registered 8.0% in the fourth quarter, or up by 1.9 percentage points compared to the previous year. Rate rises were witnessed by all types of households' loans, particularly consumer credit, where rates climbed at a faster pace. On the other hand, the average interest rate of credit to enterprises in lek reached 7.0% on average in the fourth quarter, up by 1.4 p.p. from the average of the previous year.



There are two main points which need to be emphasised in regards to the performance of loan rates. First, their behaviour was not influenced by the higher volatility of government securities yields. Their increase followed the raise of policy rate, without carrying the burden of uncertainty premia that has accompanied developments in the government securities market, reflecting thus, the accumulation of experience and maturity in the banking sector. Second, despite the rising interest rates of loans, their current level is still boosting consumption and investments, reflecting the stimulating nature of the monetary policy.

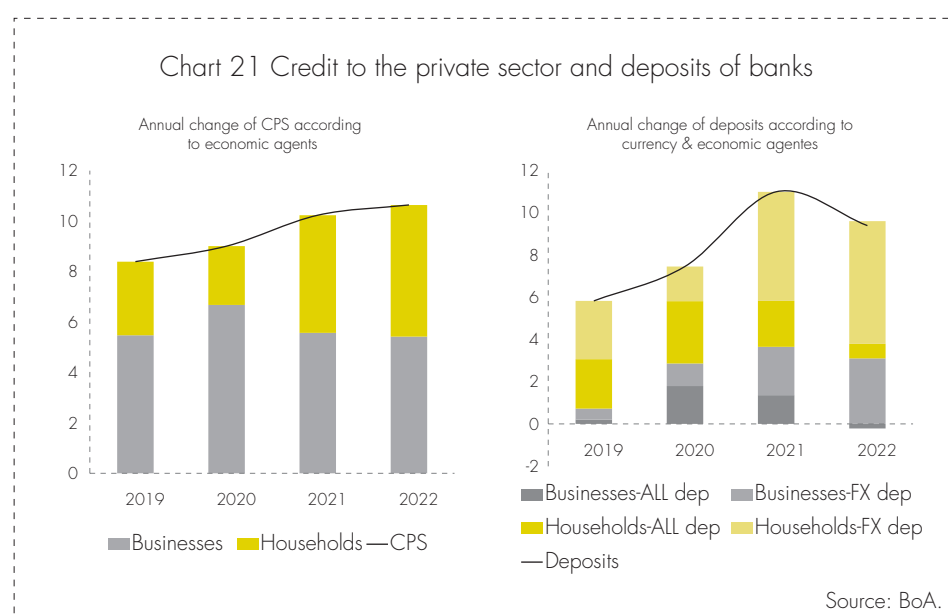
Bank credit to the private sector has grown at a rapid pace, despite the impact of increased uncertainties and the tightening of credit conditions

In 2022, credit to the private sector grew, on average, by 12.6% up by around 4 percentage points from the previous year. Over the course of the year, until the third quarter, lending grew rapidly, then it slowed down in the last quarter, reflecting a weaker demand and tighter credit conditions.



Higher credit in foreign currency, particularly in the euro, was the main contributor to lending. This portfolio recorded an annual growth of around 15.6%, a twofold rate increase compared to the previous year. On the other hand, the portfolio of credit in lek grew by 9.2%, slowing down by 2.4 p.p., compared to the previous year. Lending in lek was slower due to suspension of the supportive measures undertaken by the government, as well as a re-orientation of enterprises' demand for financing toward foreign-currency credit. Nonetheless, at the end of the year, the credit portfolio structure remains shifted slightly towards lek, which accounts for 50.9% of the private sector's credit.

The segments performing noticeably better than the previous year were loans to cover the liquidity needs of enterprises, and loans for house purchase to households. The latter grew by 17%, in annual terms, or up by 5 p.p. from the previous year, affected by higher households' demand for house purchases.



Deposits expanded with high growth rates, driven mainly by high foreign currency flows into Albania during 2022

Deposits recorded an annual growth of 10.4%, on average, up by 1 p.p. from the previous year. The faster expansion of deposits in foreign currency compensated the slower growth of deposits in lek. Foreign-currency deposits of banks grew by 15.7%, or up by 6 p.p. from the previous year. Good performance in the tourism sector coupled with other positive developments in the external sector of the economy, supported the growth of deposits in foreign currency over 2022. Also, the limited alternatives of foreign-currency investments had a positive contribution. Conversely, deposits in lek grew by 3.9% over 2022, decelerating due to a higher interest of households to invest in government securities, as well as lower budget deficit levels.



Furthermore, in 2022, higher interest rates spurred a return of savings to time deposits. Not least, chasing higher returns, there is a preference for placing foreign-currency savings in deposits with over two years of maturity. At the end of the year, deposits with over-two-year maturity accounted for 15.1%, or up 1.3 p.p. than the previous year.

Table 4 Main macroeconomic and financial indicators

	2018	2019	2020	2021	2022*
Annual average inflation					
Headline inflation (in %)	2.0	1.4	1.6	2.0	6.7
Core inflation (in %)	0.9	0.7	1.4	1.7	6.5
Economic growth					
Real GDP growth (annual, in %)	4.0	2.1	(3.5)	8.5	4.2
Labour Market ¹					
Participation rate in the labour force	68.3	69.6	69.1	69.3	72.7
Unemployment rate (15+)	12.3	11.6	11.7	11.5	11.0
Fiscal sector					
Budget balance (including grants, % of GDP)	-1.6	-1.9	-6.7	-4.5	-3.6
Budget revenues (as a percentage of GDP)	27.5	27.2	25.9	27.0	26.3
Budget expenditure (as a percentage of GDP)	29.1	29.1	32.6	31.6	29.9
Public debt (as a percentage of GDP)**	67.7	65.8	74.5	73.2	63.3
External sector					
Current account (official transfers exempted in % of GDP)	-7.3	-8.4	-8.5	-7.9	-4.8
Imports of goods (fob, as a percentage of GDP)	30.0	29.4	28.4	33.0	33.2
Exports of goods (fob, as a percentage of GDP)	7.7	6.6	6.0	8.2	10.8
FDIs (as a percentage of GDP)	7.9	7.8	7.1	6.7	7.3
Monetary and financial sector					
Repo rate (end of period)	1.0	1.0	0.5	0.5	2.8
M3 aggregate (annual growth, end of period)	-0.2	4.3	10.5	8.6	5.2
Credit to the private sector (annual growth, end of period) ²	2.0	8.4	8.9	10.3	10.6
Deposit/GDP ³	68.5	70.1	77.9	74.6	69.0
Credit/GDP ³	30.7	31.5	35.3	33.3	30.9
12-month average yield	1.9	1.6	1.9	1.7	3.2
ALL/USD average exchange rate	108.0	109.9	108.7	103.5	113.0
ALL/EUR average exchange rate	127.6	123.0	123.8	122.4	119.0
NEER	96.8	92.0	89.9	86.3	78.6
Banking Sector					
Non-performing loans ratio/total loans (%)	11.1	8.4	8.1	5.7	5.0

Source: INSTAT, BoA, Minister of Finance and Economy (MFE).

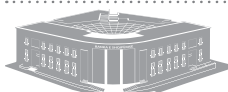
* Data on economic growth for labour market and the external sector are from the first 9 months of 2022.

** Statistical Debt Bulletin, MFE, 2022 Q4, on debt data and BoA's assessment on GDP.

1/ "Labour force survey results", published by INSTAT.

2/ Based on the monetary flow data published by the Statistical Department. The data is adjusted for the foreign-exchange effect and written-off loans.

3/ GDP assessment for 2022. Data as a ratio to GDP are calculated on this assessment, except when differently specified.



2.2. MONETARY OPERATIONS

The Bank of Albania implements its monetary policy by using indirect market instruments. These include open market operations, standing facilities, and a required reserve. The main market operations are the repurchase and the reverse repurchase agreement of seven-day maturity, whose interest rate represents the policy rate.

Open market operations and liquidity shortfall

Open market operations are made up of three sub-items: main operations; fine-tuning operations; and structural operations. These are used for short-term management of liquidity in the money market, mainly aimed at accomplishing the Bank of Albania's operational objective: *orienting short-term interbank interest rates close to the Bank of Albania's policy rate, and limiting their volatilities.*

The main operational event in 2022 took place on 23 February, when one-week injection auctions changed the form from "fixed price" to "variable price". The change in the form of auction was declared since the end of December 2021 to give commercial banks enough time to adapt. The auction in the form of fixed price was used throughout the pandemic period, since 11 March 2020. The number of banks participating in one-week injection auctions has fallen to an average of only 5 banks per auction, in contrast to the maximum 7 recorded in the March-December 2020 period. The sum injected in one-week and three-month operations increased to record levels of ALL 40.8 billion, on average, in comparison to the ALL 36.6 billion average recorded in 2020-2021. In 2022, the share of injections with longer than seven-day maturity was 37%, compared to 41% in 2021, and 44% in 2020.

Despite the change of the auction form, the interest rate in the interbank market remained on average, below the policy rate, the same as in 2020 and 2021.

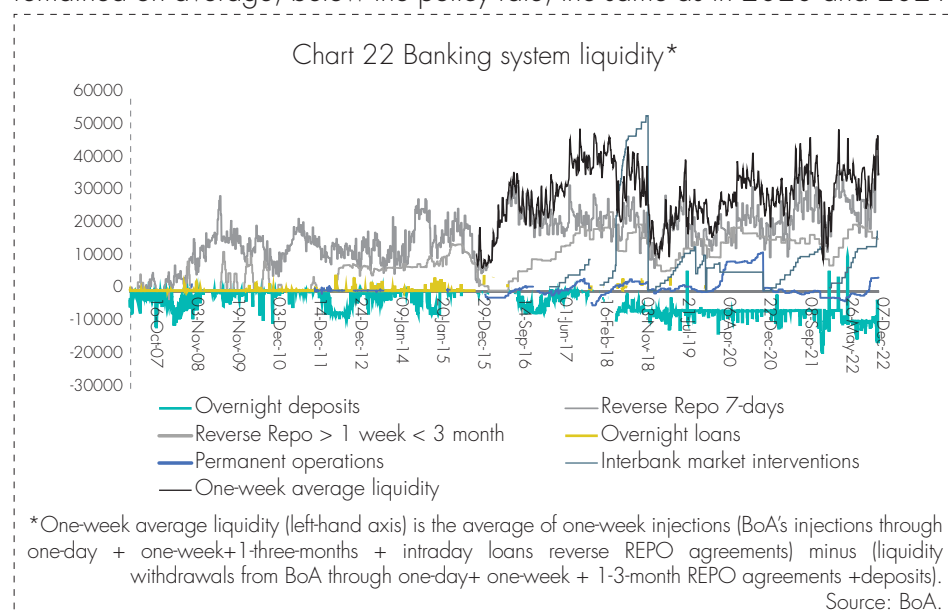


Table 5 Structure of liquidity injection operations by the BoA

	2014	2015	2016	2017	2018	2019	2020	2021	2022
Main instrument	64%	55%	80.7%	61.6%	54%	61%	56%	59%	63%
Long-term liquidity	36%	45%	19.3%	39.4%	46%	39%	44%	41%	37%

Source: BoA.

Standing facilities

Standing facilities – overnight deposits and overnight loans at the Bank of Albania - are instruments available to commercial banks to manage liquidity on a daily basis and to define a corridor in which interest rates fluctuate in the interbank market. The Bank of Albania has gradually raised interest rates up to 2.75%, from 0.50% recorded over 2022. In the same vein with the rising policy rate, standing facilities rates have also been raised, maintaining a symmetrical range. The overnight deposit rate is 100 percentage points below the policy rate, while the overnight loan rate is 100 percentage points above the policy rate.

The instrument of overnight deposits has been used daily, over 2022, with an average of ALL 9.1 billion compared to an average of ALL 6.6 billion in 2019-2021 period and ALL 4.6 billion in 2018.

In 2022, the use of overnight loans was present in 22 cases throughout 2022, compared to 1 case during 2020-2021 period, 16 cases in 2019, and 42 cases in 2018. The adjustment of the auction form has impacted the reuse of this instrument, while the increase in forecast quality and the better distribution of liquidity in the banking system has reduced the number of uses.

Required Reserves

The required reserve is an instrument through which the Bank of Albania aims to adjust money supply, the liquidity situation in the system, and manage the interest rates in the interbank market. It implies the placement of a certain amount of reserve in lek and in foreign currency with the Bank of Albania.

In 2022, an amendment was adopted to the regulation on Required Reserves in lek, which enabled banks to hold in custody a portion of their excess reserves in cash. The 1-year temporary period, when the regulatory amendments of 2018 for the de-euroization were adopted, ended in 2019. The Bank of Albania decreased the remuneration rate applied on the required reserve holdings in lek to 5.00% and 7.50%, from 10% in the previous year, and increased the remuneration rate for the required reserve in foreign currency to 12.5% and 20.0%, by applying a higher rate for banks which have a higher exposure from liabilities in foreign currency. It was decided that the remuneration rate on required reserves in lek was to be equal to the policy rate, from 70% of policy rate which it was previously.



A regulatory amendment has been adopted on the remuneration rate on required reserves in foreign currency and on the excess balances of banks with the Bank of Albania. As the interest rate on the overnight deposit in euro rose to the positive territory, the remuneration rate on the required reserves in this currency was adopted at 0%. Starting from September 2016, banks paid for the required reserves in euro an interest rate equal to the overnight deposit rate of the European Central Bank. The remuneration rate on the excess reserves in US dollars has remained 0% since 2011.

The remuneration rate on the excess reserves in lek and the US dollar remained 0% during 2020, as in the past four years. On the other hand, the remuneration rate on excess reserves in euro remained at the level set in 2016, at 0.25 percentage points lower than the ECB's deposit interest rate.

2.3. FINANCIAL STABILITY AND MACRO-PRUDENTIAL POLICY

Pursuant to the legal framework in force, the Bank of Albania's work is also focused on preventing and managing the systemic risk in the banking sector and the financial system. The Bank of Albania conducts this process, which is closely related to the objective of safeguarding financial stability, through drafting and implementing the macroprudential policy, detailed in the Macroprudential Policy Strategy.

The Bank of Albania monitors systemic risk on a regular basis, by identifying the sources of risk, assessing the risk level, and determining the probability of it spreading from the external environment to our financial system, from one bank to the other, or from one segment of the financial system to the next. These assessments guide the decision-making process regarding the type, degree of calibration, implementing subjects, and the operationalisation method of the instrument that is used to handle the risk, in accordance with the intermediate macroprudential objectives.

2.3.1. ASSESSMENT OF SYSTEMIC RISKS AND MACROPRUDENTIAL MEASURES

In 2022, in order to safeguard financial stability, the Bank of Albania focused on: a) regularly monitoring and assessing systemic risk; b) implementing and analysing the impact of macroprudential measures; c) analysing the effect of geopolitical and economic events on the soundness and stability of the banking sector; and d) fulfilling the regulatory and methodological macroprudential framework. Furthermore, in congruence with the 2017 Memorandum¹², the BoA has continued to publish the six-monthly report "On the performance

¹² A Cooperation Memorandum between the Ministry of Finance and Economy, the Bank of Albania, and the Financial Supervisory Authority "On extending the use of the national currency in the financial system and the Albanian economy."



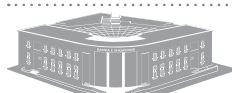
of indicators that the BoA monitors in the framework of the de-euroization process.” The last report emphasizes that, since the measures first started to be implemented, the effects have been mild and extended in time. To this end, in order to improve the efficiency and realisation of long-term objectives, additional measures might be considered in the real sector of the economy.

Monitoring systemic risks

The Bank of Albania employs a series of indicators, models and surveys in order to identify the source of systemic risks and to assess their intensity, severity and speed of creation. The relevant analyses form the basis of macroprudential discussions and decision-making, while published materials, such as the Financial Stability Report, and analyses and surveys, support the transparency and the accountability of the BoA toward the public and the financial system. Systemic risks in the banking sector and the financial system are analysed in the context of intermediate macroprudential objectives and relate to the excessive growth of loans and borrowing; the concentration of exposures; the shortage in liquid assets and lack of liquidity; as well as the contribution of systemically-important financial institutions to systemic risk. The performance of risk indicators shows that systemic risks in the banking sector and financial system, were contained during 2022. The indicators related to credit growth, liquidity position, foreign exchange market volatility, concentration of exposures, and financial system activity show that the situation is balanced. The most pressing issues found in the Macroprudential Map of Systemic Risks are related to indicators measuring loans in foreign currency, the gap between assets and liabilities with short-term maturities, loans for construction and real estate purchases, and prices in the real estate market. According to the analysis of the Bank of Albania, these risks are mitigated by the following factors: the tightening of unhedged loans in foreign currency, the high level of liquid assets of banks; the tightening of banks’ lending standards to households and enterprises, and the raise of interest rates on loans. These analyses are accompanied by recommendations to neither define new macroprudential measures nor adopt amendments to the existing measures.

Macroprudential measures

In 2022, the Bank of Albania continued to implement the requirement provided for in the Regulation “On macroprudential capital buffers” (Regulation 41/2019), and follow banks’ quarterly reports to figure out the degree to which these requirements are fulfilled. Since 2020, banks started to fulfil with annual buffers of 0.5 p.p. the requirements on capital conservation buffer (CCoB), as well as the capital buffers for systemically important banks (SyRB), which is announced once every year at the end of March. The countercyclical capital buffer (CCyB) is used to mitigate or decelerate the excess growth of credit and to enhance the resilience of banks during periods of credit market overheat. Although this instrument is active, the capital buffer rate for Albania has remained unchanged at 0%, since the indicators show that the rate of lending to GDP



is still low. Overall, the banking sector - aided by a good starting position of the capitalisation level - has been able to fulfil these requirements. The BoA assesses that fulfilling these requirements as well as the new ones related to the functioning of resolution, will continue to contribute to strengthening the resilience and soundness of the Albanian banking sector.

Analysis on the impact of the Russian invasion of Ukraine

Economic and financial developments that followed the start of the Russian military aggression in Ukraine, during the first months of the year, took precedence in the financial stability analyses of the Bank of Albania in 2022. In order to assess banks' initial position and their capacities to withstand the potential financial costs of this shock, the BoA conducted a specific analysis pertaining to the stress test, based on the specific survey carried out by banks as well. Almost all banks reported that they had taken measures to conduct several simulations for assessing the financial implications of the shock, by size and quality of each specific exposure. Both the survey and the stress test concluded that the banking sector was liquid and well-capitalised, and able to withstand the assumed shock.

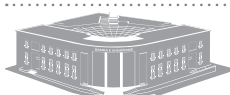
Legal and methodology framework

During 2022, the Bank of Albania made some consequential steps toward fulfilling the macroprudential policy framework. The regulatory basis of the institution was complemented by a draft-regulation on the indicators that support the implementation of macroprudential measures on lenders. Meanwhile, the body of methodological documents is enriched by the analysis of the exercise on the interconnection and the risk of crises spreading in the financial system; the methodology on the implementation of the systemic risk macroprudential buffer; and an improved and more complete version of the methodology on the stress test exercise that assesses capital adequacy.

- The draft-regulation "On data reporting, identifying and monitoring the indicators of lending and real estate investments," which is still undergoing consultation with the banking sector, aims to standardise the methods by which banks determine, monitor and report the indicators related to lending standards and their exposures to real estate properties. It also sets out the methods by which banks may implement critical values and thresholds on indicators used to measure credit to income, credit to property value, and credit instalment payment to income. It also stipulates the Bank of Albania's right to use these indicators as macroprudential policy instruments, by applying upper and lower limits to them, if necessary. The subjects of reporting are institutions licensed by the BoA to grant loans for real estate purchases or investments. The approval and implementation of this sub-legal act is expected to be a consequential step in the process of aligning the national macroprudential framework with the practices adopted by the EU.



- In 2021 and 2022, the BoA completed the analysis on the interconnection and the risk of crises spreading in the domestic financial system. This analysis takes the shape of a stress-test exercise that evaluates the capital adequacy of banks and other financial institutions to withstand shocks springing from foreign banks and other segments of the domestic financial system such as investment funds, pension funds, savings and loan associations, and insurance companies. This analysis provides an important contribution to identifying the subjects and segments of the domestic financial system that are particularly exposed to the banking sector, due to the size and concentration of loans, deposits and realty relationships established by some of these banks with these subjects or their administrative bodies. The exercise demonstrates that the interconnection between domestic banks does not pose a risk on their soundness, since interbank exposures are limited in relation to banks' capital. The other segments of the financial system don't pose a risk to the banks' soundness either, whereas the banking sector appears to be exposed to some non-residential banks, which have established special rapports with domestic banks. This exercise is conducted annually and reflects an important instrument for assessing systemic risk and its spread, not only within the banking sector, but also across the entire financial system of Albania.
- Drafting the methodology to implement the systemic risk buffer (SyRB) was another important development made toward fulfilling the macroprudential framework. SyRB is the only capital buffer stipulated in Regulation 41/2019 that, despite being allowed by the regulatory framework, has not been implemented by the BoA. In accordance with the latest EU directive on capital requirements, the systemic risk buffer may be used to mitigate or prevent all systemic risks that are not adequately addressed by other instruments. According to this Regulation, the BoA may adopt SyRB after assessing that the banking sector is faced with non-cyclical structural developments or events, which might risk the stability of the entire financial system or a specific segment thereof. During 2021-2022, the BoA completed the methodological manual on how to use SyRB, which includes the conditions necessary to determine risk indicators, the formulas for calculating threshold values, and the method for obtaining the value of SyRB. The methodology illustrates the case when SyRB is used to address the structural systemic risk of euroization, and following the same principles and approach, SyRB may be used to mitigate or avoid the risks related to banks' exposures to specific markets, such as the real estate market, type of collateral, exposure type, or quality of bonds purchased by banks. By publishing this methodology in 2023, the BoA aims to present banks with the technical aspects of the implementation of this key macroprudential instrument, and to enhance the transparency of its macroprudential policy.



- One of the technical assistance activities on the functioning of financial stability during 2020-2022, was related to drafting the stress-test methodology according to the top-bottom approach. The methodology describes how to manage important financial risks and serves to assess their potential effects on the financial and banking situation, in case they materialise. The risk factors addressed by the model correspond to extraordinary events with a high probability of occurrence. The methodology is accompanied by an analytical package and a guideline on the satellite model for calculating credit risk.

2.3.2. BANKING SYSTEM ACTIVITY

Financial intermediation assessment based on financial institutions' aggregate balance sheet, continued to expand in 2022 as well. The largest relative growth was recorded in the segment of pension funds. Conversely, the balance sheet of investment funds shrank and their share to GDP fell. The decline of the share of financial system assets to GDP, in 2021-2022, reflects the growth of GDP at a more rapid pace compared to the expansion of financial institutions' balance sheets. The Albanian banking sector concluded 2022 with a positive financial result, a good capitalisation level of activities, which was reflected in a capital adequacy ratio of 18% and improved indicators of credit quality. Banking loans and deposits continued to expand with a pace comparable to 2020, but slower than in 2021. Loans and deposits in foreign currency recorded the steepest growth. The expansion of the banking sector's activity during the year is mainly attributed to the growth of credit and investments in securities, as well as treasury and interbank transactions. The flow of banks' liabilities was determined almost entirely by the growth in the stock of deposits, by around 6%, in annual terms.

Table 6 Financial system activity indicators

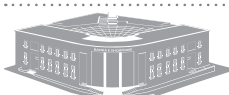
Financial System indicators	2019	2020	2021	2022*
Financial soundness indicators (banking sector)				
Regulatory capital as a percent of risk-weighted assets (%)	19	19	19	18
Non-performing loans (gross) as a percent of total loans (%)	8.4	8.1	5.7	5.0
Return on equity (ROE) (annual basis, %)	13.0	10.4	12.6	12.3
Non-interest expenses to gross income (%)	57	55	55	47
Liquid assets as a percent of short-term liabilities (%)	49	47	46	41
Deposits/Loans (%)	207	211	214	212
Loans in foreign currency to total loans (%)	51	50	51	51
Net open position in foreign exchange as a percent of regulatory capital (%)	7.4	7.9	8.9	5.0
Weight of assets to GDP (%)				
Banking Sector	87.2	97.8	93.9	87.9
NBFIs	3.9	4.2	4	3.7
SLAs and Union	0.6	0.7	0.7	0.7
Insurance companies	2	2.4	2.2	2
Pension funds	0.2	0.2	0.2	0.3
Investment funds	4	4.2	4.1	2.5
Financial system	97.9	109.5	105.1	97.1

Source: BoA. *For 2022, the third quarter is the last period.



Credit quality continued to improve during 2022, as well. The non-performing loans ratio dropped to 5%, from 5.7% in the previous year. The performance of this indicator was affected by overall credit growth and a continuous contraction of the non-performing loans portfolio, due to the restructuring and measures undertaken by banks to collect non-performing loans. The share of paid-off non-performing loans in 2022 was around 22% of the total non-performing loans reported by banks at the beginning of the year, whereas three years ago this ratio was around 30%.

The banking sector recorded ALL 22 billion profit in 2022, comparable to 2021. The rising interest rates brought in higher income from interest and securities investments, whereas interest expenses were lower. Non-interest income was lower compared to the previous year, due to losses from investments in financial instruments reported by some banks. Net provision expenses on assets increased somewhat in 2022 compared to 2021. The fall of expense to income indicator shows that the banking sector has become more efficient in the last few years. Overall, compared to last year, the increase of net interest income during 2022 was offset by higher expenses and a more sluggish non-interest income.



2.4. SUPERVISION

The supervisory function of the Bank of Albania has as its main objective the early identification and control of major risks (credit risk, liquidity risk, operational risk, interest rate risk, capital and profitability risk, reputational risk and money laundering), as well as the assessment of internal audit and the effectiveness of corporate governance, as important risk-mitigating factors in the activity of banks, non-bank financial institutions, and other institutions licensed by the Bank of Albania.

Timely action and effective regulatory measures through ongoing supervision and their implementation remain one of the most important steps to successfully finalize the ultimate goal - to safeguard the soundness of financial entities.

2.4.1. MAIN DEVELOPMENTS

Structural developments

A major development during 2022 was the continuing consolidation of banking activity, where one of the banks operating in the domestic market, OTP bank, purchased the shares of Alpha Bank in Albania. This process was finalised with the complete absorption of the activity of Alpha Bank. In December 2022, the Albanian banking system consisted of 11 banks.

The shareholder structure also underwent some changes, where Eurosig acquired the shares of the United Bank of Albania. The share of banks with Albanian capital accounted for 33.8% of the total system's assets. Banks with domestic capital have been more stable over the past three years, prompting the process of banking intermediation through lending to the domestic economy.

Rise in interest rates

International developments were unfavourable to banking activity. Inflationary pressures caused rising interest rates, which were more pronounced in the second half of the year. These developments pushed up the cost of credit and, consequently, banking activity faced more challenges related to paying off loans with floating interest rates. As a result, the BoA engaged in discussions with banks regarding this risk and required them to analyse its potential effects on their financial situation, through various stress-test scenarios.

Results on the level of non-performing loans at the end of 2022 show that this risk has not materialised. However, the BoA remains cautious toward these developments, by adopting an active approach to anticipate potential negative effects, through undertaking the necessary measures.



The equivalence assessment of the Albanian supervision regulatory framework with the EU requirements

An independent assessment of the current supervisory framework, adopting a comprehensive approach, was carried out with the assistance of the European Bank for Reconstruction and Development (EBRD) and PriceWaterhouseCooper (PwC) Spain. The equivalence was re-assessed based on the methodology published by the EBA at the beginning of 2022. This analysis reached the conclusion that the procedural and regulatory framework, as well as supervisory practices, are at a high degree of equivalence and approximation with the applicable standards of the EU countries. This approximation is assessed particularly high in relation to capital requirements, applicable mitigation techniques, large exposures, liquidity, financial leverage, macroprudential supervision, professional confidentiality, and international cooperation. By mid-2022, the BoA made an official request to the EBA to consider the equivalence assessment for Albania in accordance with the updated methodology of the EBA.

Drafting the regulatory framework on Payment Services

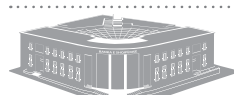
In 2022, the BoA continued to work on completing the regulatory framework in accordance with the Law "On Payment services," by approving several sub-legal acts conducive to regulate the activity, supervision and the management of risks borne by the subjects of the law, drafted in compliance with the EU regulations and the guidelines of the European Banking Authority (EBA). Special attention was paid to drafting a regulation on the risk management and supervision of electronic payment institutions, further approximating with the provisions of the relevant EU directive 2009/110/EC. During 2022, the BoA continued to focus on transposing the Directive 2014/92/EU (PAD) in its regulatory framework, which aims to enhance transparency and market competitiveness, as well as financial inclusion of Albanian citizens.

Green finances

The Bank of Albania is willing to adopt the measures undertaken by the government at a national level regarding the shift towards a green economy. In this framework, the supervision has been engaged on the issue of climate risk in the supervisory processes of licensed institutions. The first step toward this engagement was the drafting of the medium-term strategy for this purpose. The draft strategy includes actual steps to be taken by the supervision during 2023-2025 in order to include climate risk in supervisory processes, which will be harmonised with the relevant international processes. These steps were laid out in cooperation and coordination with the FinSAC project of the World Bank.

Preparing the guideline on financial reporting

A good part of the year was dedicated to prepare the relevant guideline on data reporting according to international accounting standards. Reporting



tables which will be part of the reporting system after the entry into force of this Guideline, have also been prepared. This project also includes the so-called bridge tables that facilitate the work of banks in the process of converting the existing reporting system to the new one according to the IFRS standards. These tables, which refer to the core financial reports, such as, assets and liabilities; income and expense statement; and off-balance sheet items; are drafted with the assistance of the FinSAC project of the World Bank, as well as with the participation of some commercial banks in Albania.

Cybernetic risk

Cyber-attacks against critically-important institutions in Albania, including the banking system were fiercely present during 2022. Some of these attacks were partially "successful". The attacks against the banking sector have forced it to raise its guard and focus more efforts on protection, prevention and investigation. In this context, during the last year, isolated incidents were identified in the sector of non-bank institutions and in one bank. The latest incident created several difficulties to the bank initially, which was able to quickly return to business as usual.

In these circumstances, in 2022, particularly in the last part of the year, banks tried to increase cooperation with third parties supporting them in security and information systems, with one another, and with the National Authority for Electronic Certification (NAEC), by maximising synergies through the exchange of information on strengthening controls on cyber-security, indicators of compromise etc. The cyber-security situation in the banking system has been kept under control and free of materialised incidents.

Meanwhile, the BoA has been attentive to this situation, by intensifying communication with the banking system, where the need for additional security measures is emphasized, particularly in regards to accessing third parties, as well as the reporting of incidents in a timely manner, in order to undertake coordinated corrective measures.

Implementation of recommendations of assessment report by Moneyval Committee and ICRG/FATF action-plan

In the framework of implementing the recommendations from the Committee of Experts of CoE on the evaluation of Anti-Money laundering Measures and counter terrorist Financing (MONEYVAL), the Bank of Albania is included in the implementation of the national plan of measures, in the direction of improving the regulatory framework and strengthening the effectiveness of the supervisory process, in order to address the primary issues identified in the report. In this framework, the number of on-site examinations has been increased, focusing particularly on terrorism financing issues and implementation of international sanctions, especially on more vulnerable entities such are non-bank financial institutions (NBFIs) and foreign exchange bureaus (FEBs). Related to the



identified violations, in addition to the recommendations for specific entities, also supervisory measures, such as "warnings" and "fines" are implemented. In 2022, a total of 82 examinations were carried out in the field of money laundering prevention and terrorism financing, which comprised 5 banks, 5 non-bank financial institutions, 2 SLAs and 70 FEBs (of which 28 FEBs underwent the process of implementing recommendations as a result of deficiencies observed in previous examinations). Four of these examinations were carried out in collaboration with the General Directorate for the Prevention of Money Laundering (GDPML).

2.4.2. ON-SITE EXAMINATIONS

In total, 13 on-site examinations were performed in 2022. Most of them - 4 full-scope and 4 thematic examinations - were carried out in banks.

Simultaneously, 2 non-bank financial institutions and 2 SLAs underwent full-scope examinations. Additionally, one non-bank financial institution underwent a thematic examination on the follow-up of the recommendations. One non-bank financial institution was charged with an administrative measure (suspension of activity for 12 months), due to repeated breaches of the regulatory framework.

Table 7 Number of examinations by years and topic

Examined institutions	Strategic Risk	Organisational Risk	Credit Risk	Liquidity Risk	Interest Rate Risk	Market Risk	Information and Communication Technology	Operational Risk	Reputational Risk	Profitability	Capital
2020	2	8	15	11	2	5	5	5	88*	2	6
2021	7	7	12	7	7	7	8	8	109**	6	6
2022	8	9	12	12	8	8	8	8	82***	8	12

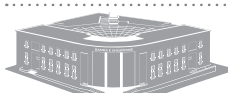
* In 2020, 74 examinations were carried out at Foreign Exchange Bureaus on Reputational Risk.

While the other 14 examinations regarding this risk were carried out in banks and non-bank financial institutions. Of these, examinations on 2 banks, 1 non-bank financial institution and 1 Foreign Exchange Bureau were carried out with the General Directorate for the Prevention of Money Laundering, and examinations on 3 banks were carried out in collaboration with the Financial Supervision Authority.

** In 2021, 90 examinations were carried out at Foreign Exchange Bureaus on Reputational Risk and 19 other examinations regarding this risk were carried out in banks and non-bank financial institutions. Of these, examinations on 2 banks, 6 non-bank financial institution and 1 Foreign Exchange Bureau were carried out with the General Directorate for the Prevention of Money Laundering.

*** In 2022, 70 examinations were carried out at Foreign Exchange Bureaus on Reputational Risk. While the other 14 examinations regarding this risk were carried out in banks and non-bank financial institutions.

In 2022, as well, additional attention was paid to credit risk, as targeted examinations on this risk were carried out in 3 large banks. Also, thorough risk assessments were part of the full-scope examinations carried out in the other banks.



Credit risk assessment has gone hand in hand with the relevant capital requirements assessment, since credit risk accounts for 87% of total demand for capital of banks. The assessment on capital requirements' calculation shows an improvement, since banks have invested in systems and programmes which demonstrate a high level of accuracy in calculating capital requirements, and are in compliance with the regulatory provisions. However, it is of utmost importance to continuously improve this infrastructure, in order to accommodate regulatory amendments, as well as to acquire the appropriate instruments to control and plan future capital requirements.

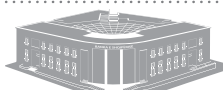
Operational and information technology risk are always present in licensed institutions' activity. As foreign attacks on key Albanian institutions, including banks and other financial institutions, became more pronounced particularly during last year, guaranteeing an effective protection of the system's integrity, clients' assets and their persona data has become indispensable.

With a view to supervise liquidity and market risk, in addition to full-scope examinations, parallel examinations have also been carried out to assess the adequacy of the internal regulatory framework and the processes for implementing new regulatory requirements on the net stable financing of banks. Examinations were undertaken particularly in the last quarter of 2022, in four systemically-important banks, and will continue in 2023 in all the other banks, more or less. The examinations have identified several drawbacks concerning the process of governing the implementation of the liquidity coverage indicator, as well as its erroneous calculations.

A good number of banks have oriented part of their investments toward foreign and domestic credit instruments, exposing themselves to price volatilities that occurred in 2022, due to rising interest rates. However, all banks in general were able to withstand these shocks, re-orienting the structure of their financial instruments on their balance sheets.

During 2022, examinations carried out in non-bank financial institutions and SLAs focused on their risk profile and market share. Risks related to credit, policy systems, transparency with clients, and money laundering took centre stage. The examinations identified that the activity of these institutions (particularly the lending activity) generates stable revenues that have incessantly supported capital. Overall, the internal organisational and regulatory framework is congruent to the size and complexity of the relevant subjects, but there is always room for improvement in accordance with the best practices, as well as dynamic risk management during activity expansion. As regards transparency and the prevention of money laundering, there is a satisfactory compliance with legal and regulatory requirements. If there are weaknesses identified, subjects respond adequately to address them.

Examinations identified the need to improve the overall management of financial risks, operational and IT risks, as well as provide adequate controls on



them. During 2022, the maximum EIR for consumer credit was published twice, following the regulatory amendments of last year¹³. The impact of setting this limiting rate has been sizeable, as the effective interest rate dropped by roughly three times for the small loan segment in turn contributing to the normalisation of the market.

2.4.3. REVIEW OF THE LEGAL AND METHODOLOGY FRAMEWORK

The Bank of Albania has continued to complete and improve the supervisory regulatory framework, by approving several new regulatory acts and reviewing some existing ones, furthering thus its approximation with the EU acquis, while taking into account the developments of the banking and financial system in Albania.

The following are some of the main changes to the regulatory framework during 2022:

- I. **In accordance with the requirements laid down in Law 55/2022 "On Payment services," the Supervisory Council approved:**
 - The regulation "On the public registry of payment service providers," which determines the subjects and data that will be entered in the public registry of payment service providers and their agents. This registry will be created and updated by the BoA;
 - The guideline "On the criteria on how to stipulate the minimum monetary amount of the professional indemnity insurance or other comparable guarantees." The purpose of this guideline is to define the criteria and indicators, as well as the formula for the calculation, on how to stipulate the minimum monetary amount of the professional indemnity insurance or other comparable guarantees to be held by the entities stipulated in this guideline;
 - The regulation "On strong customer authentication and common, open and secure standards of communication," which determines the requirements for payment service providers, for the purpose of implementing security measures for: the application of the procedure of strong customer authentication, the protection of the confidentiality and the integrity of the payment service user's personalised security credentials; the establishment of common, open and secure standards for the communication (open banking) between different payment service providers, payers and payees, in relation to the provision and use of payment services;

¹³ Amendments to the Law No. 48, dated 1.7.2015, "On consumer loans and mortgages". These amendments represent the concept of the maximum effective interest rate (maximum NEI), which is the maximum level that can be reached by the effective interest rate, which is adopted to consumer loans.



- The regulation "On carrying out the activity and supervision of electronic money institutions," which aims to set out the rules for the carrying out of the activity of electronic money institutions, for the management of risks related to this activity and their supervision, as well as the rules and requirements on electronic money issuance by electronic money issuers. In addition to fulfilling the Law "On Payment services," the requirements laid down in this Regulation are also congruent to the requirements set out in the Electronic Money Directive 2009/110/EC (as amended), aiming to further approximate to this Directive. The approval of this Regulation was also accompanied by some amendments to the Regulation "On risk management in the activity of non-bank financial institutions," revoking some of its requirements which are now provided for in this new Regulation. Upon entry into force of the above Regulation, Regulation "On electronic payment instruments" is repealed.

II. In the framework of reviewing the regulatory acts to fulfil the objective of implementing the Basel III requirements and to further approximate to the EU acquis, the following were approved in 2022:

- Amendments to the Regulation "On capital adequacy ratio," which consist in the revision of capital requirements for exposures to securitisations and market risk, in compliance with the revised provisions of the European regulations 575/2013/EU (CRR) and 2019/876/EU (CRR2);
- Amendments to the Regulation "On the bank's regulatory capital," which consist in the revision of some references to Regulation "On capital adequacy ratio," regarding securitisation;
- Amendments to the Regulation "On the core management principles of banks and branches of foreign banks and the criteria on the approval of their administrators," and the new Guideline "On internal and effective governance of banks." The amendments adopted to this regulation and the new guideline aim to provide the details on the requirements and basic rules for improving the internal and effective governance of banks and branches of foreign banks.

III. With a view to transpose the Directive on Payment Accounts 2014/92/EU (PAD) and Regulations 2018/32/EU, 2018/33/EU and 2018/34/EU supplementing this Directive, the following are made mention of:

- The approval of the Regulation "On the comparability of the fees related to payment account and payment account switching service," which determines the requirements for transparency and comparability of fees charged to consumers in their payment accounts, as well as determining requirements concerning the switching of payment accounts between payment service providers; and



- The compilation of the final draft-law "On the payment account with basic features," which is still in the process of public consultation.

IV. Other developments concerning the review of the regulatory framework in 2022 took place, during which the following were approved:

- Decision on the suspension of the profit allocation from banks in 2021 and the profit which will be realised during 2022, until 31 December 2022, which is an important measure undertaken for three consecutive years, helping to maintain banks' capital level;
- Amendments to the Regulation "On licensing and activity of non-bank financial institutions," which clarify the interpretation of the additional activities permissible to financial institutions dealing in micro-lending and non-bank financial institutions that purchase non-performing loans; and
- Amendments to the Regulation "On licensing and activity of savings and loan associations and their Unions," in the framework of implementing the recommendations of the Committee of Experts of CoE on the evaluation of Anti-Money laundering Measures and counter terrorist Financing (MONEYVAL), regarding the integrity of the founding members of the Savings and Loan Associations, as well as payments and/or future capital growth.

2.4.4. LICENSING FRAMEWORK AND APPROVALS

The banking sector continues to be dominated by foreign banking group subsidiaries with capital originating from the EU, meanwhile the number of banks operating in Albania fell by 1, compared to the previous year. At the end of 2022, there were 11 banks operating in Albania.

Table 8 Banks' ownership structure, number of banks (at period-end)

	2016	2017	2018	2019	2020	2021	2022
Banks in Albania, of which:	16	16	14	12	12	12	11
I. Majority foreign owned ¹	13	13	11	8	8	8	6
• EU-based banks	9	9	7	6	6	6	5 ²
• Turkish based	1	1	1	1	1	1	1 ³
• Majority owned by an international financial institution (Saudi Arabia)	1	1	1	1	1	1 ⁴	
II. Majority Albanian owned	3	3	3	4	4	4	5 ⁵

Source: BoA.

¹ "Majority" is in any case the simple majority of 50 per cent plus 1 vote.

² Banks with capital origin from EU countries at the end of 2021 are from: Italy (Intesa Sanpaolo Albania), Austria (Raiffeisen), Germany (Procredit), Hungary (OTP Bank, Albania), and Bulgaria (First Investments Bank Albania).

³ National Commercial Bank.

⁴ United Bank of Albania.

⁵ Majority Albanian owned banks at the end of 2022, are: Union Bank, Credins Bank, American Bank of Investments, Tirana Bank and United Bank of Albania Bank



In 2022, the Bank of Albania issued preliminary approval for ownership of the qualifying holding of shares of two banks; ownership of the qualifying holding of shares of four non-bank financial institutions; the judicial re-organisation thorough merging by absorption of one bank; amendments to the statutes of three banks; the issuance of subordinate debt from five banks and the settlement of subordinate debt from one bank; approval of authorised chartered auditors (statutory auditors) for auditing the financial statements of all banks in 2022.

The Bank of Albania approved 53 bank administrators, specifically by position classification, 17 members of the steering council, 5 members of audit committees, and 31 executive directors and managers of the bank's internal audit.

In 2022, the network of banks within the territory of the Republic of Albania was expanded with 1 new branch, while banks have reported reduction of the number of 21 branches and agencies within the country. As of the end of the year, banks operated through 401 branches and agencies.

Based on submission of applications, the Bank of Albania licensed 2 electronic financial institutions: "Rubicon" sh.a., "VELOX PAY" sh.p.k., and 1 non-bank financial institution involved in micro-credit -"LENDAL" sh.p.k. In 2022, the BoA refused the license application to one micro-credit financial institution. Also, the BoA issued an approval for additional financial activity to 1 non-bank financial institution, FAB Invest (formally known as OMNIFACTOR), and 1 electronic money institution, RPAY. At the end of 2022, there were 38 non-bank financial institutions, micro-credit institutions, and electronic money institutions in operation.

Non-bank financial institutions also received preliminary approvals for 7 administrators, 1 Chairman of Steering Council, and 1 Chairman of Audit Committee. In addition, preliminary approvals were issued for the appointment/reappointment of one Chairman of the Steering Council, and one Chairman of the Audit Committee of savings and loan associations.

During 2022, 56 new foreign exchange bureaus were licensed, while licences were revoked for 29 existing foreign exchange bureaus. By the end of 2022, there were 583 foreign exchange bureaus in the market.

Table 9 Number of banks, non-bank financial institutions, savings and loan associations and foreign exchange bureaus licensed by the BoA's (end-period)

	2016	2017	2018	2019	2020	2021	2022
Banks	16	16	14	12	12	12	11
Non-bank financial institutions	28	31	30	32	30	35	38
Foreign exchange bureaus	428	426	463	503	538	556	583
Unions of savings and loan associations	2	1	1	1	1	1	1
Savings and Loan Associations	13	13	13	14	14	16	16

Source: BoA.



2.5. RESOLUTION

The law “On the recovery and resolution of banks in the Republic of Albania” grants the Bank of Albania the capacity of Resolution Authority in Albania. This legal mandate aims to ensure an organized resolution of banks in insolvency, avoiding negative impact on the real economy and the financial system, by minimizing the use of taxpayers’ money, as well as guaranteeing the protection of customer assets in the form of insured deposits.

The Bank of Albania, in the capacity of Resolution Authority, has further developed the functions of this capacity according to the priorities foreseen in the medium-term development plan for 2022-2024. It has strengthened the capacity for resolution in banks, completed the annual MREL intermediate level of requirements, continued to complete the regulatory and methodological framework for resolution, as well as completed and monitored the Resolution Fund.

In the process of drafting Resolution Plans, the Bank of Albania has maintained stable dialogue with banks regarding the increase of resolution by regularly monitoring the fulfilment of the recommendations communicated as part of the annual inspection process in banks.

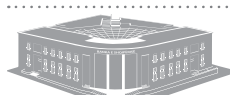
The BoA was invited by the Single Resolution Board- SRB- to participate in the meetings of the EU banking Resolution Colleges with subsidiaries operating in Albania, in accordance with the cooperation agreement signed between the two institutions in October 2018.

2.5.1. STRENGTHENING THE ABILITY FOR RESOLUTION IN BANKS

Resolution plans

Every year, the Bank of Albania drafts and updates the resolution plans for every bank operating in Albania. During the annual cycle for 2022, the BoA updated resolution plans according to the following: information periodically provided by Banks, results from on-site inspections, and self-assessment reports provided by banks about their capacity for resolution. The plan defines the preferred strategy for Resolution and the measures that each bank must undertake in terms of their ability to implement this strategy.

As part of the annual process of drafting plans, in 2022 the following were made possible: identification and assessment of economic functions with critical importance for the Albanian banking sector, assessment of public interest for all banks, and the drafting of a complete framework for assessing the capacity for resolution in relation to all the objectives defined in the regulatory requirements in force (Box 1). At the end of this process, an executive summary of resolution plans was provided to each bank, focusing on the following: strategic analysis of the business, the “minimum requirement for regulatory capital instruments and



eligible liabilities" (MREL) that the bank must meet to absorb losses, the need to recapitalize in case of resolution, and an assessment of the bank's ability to efficiently implement the resolution strategy. In regard to the latter, it is estimated that in 2022 banks have undertaken concrete steps and initiatives to increase their capacity for resolution. They have progressed in relation to objectives such as governance, increasing capacity for absorption of losses and recapitalization after implementation of the resolution strategy, ensuring operational continuity in resolution, and improving the quality of reporting for the purposes of planning.

Minimum requirements for regulatory capital instruments and eligible liabilities

The "Minimum requirements for regulatory capital instruments and eligible liabilities" (MREL) constitutes the foundation of the legal framework which supports strengthening the capacity of the banking sector for resolution and maintenance of financial stability. In this regard, MREL is another important indicator in addition to the requirement for regulatory capital, which aims to increase the ability of banks to withstand shocks, and, when necessary, to resolve crises without using public funds.

Since 2021, the BoA communicates, yearly, the intermediate level of requirements for MREL that must be fulfilled by banks within the next 12 months, as well as the final level of requirements that must be fulfilled by 2027. In 2022, the banking sector met the MREL intermediary level of requirements through the use of regulatory capital instruments and eligible liabilities. By meeting this objective, banks took an important step towards the final objective of raising the sufficient capacity of financial instruments to strengthen their balance sheet, towards the goal of meeting capital requirements at all times.

In December 2022, banks were notified of the MREL intermediate level of requirements which must be met for 2023. The Bank of Albania regularly monitors the ability of the banking sector to fulfil the requirements for MRE, through regular reports of this indicator as part of the process of drafting resolution plans.

Inspections in Banks

The Bank of Albania has continued to work towards strengthening the ability for resolution in banks. In this context, it has carried out annual on-site examinations of banks that provide critical functions for the economy, focusing on evaluation of the fulfilment of recommendations made in 2021, and the determination of new priorities that banks must fulfil in 2023. Following this examination cycle, the BoA prepared individual reports for each bank with a focus on achieving bank's ability to implement resolution, according to the strategy and instruments selected in the relevant plan. In these reports, the BoA has left a series of recommendations that must be fulfilled by each bank, according to certain deadlines, in order to minimize possible obstacles and increase their ability to implement plans. In 2022, the BoA completed, for the first time, inspection of non-systemic banks with a focus on resolution. The purpose of inspection in these banks was to improve reporting within the annual cycle of drafting plans for resolution.



2.5.2. PREPARING A RESILIENT FRAMEWORK FOR RESOLUTION

Aiming to prepare a resilient framework for resolution, the BoA has drafted several methodological and guiding documents which support banks in taking efficient measures to fulfil the recommendations of the Bank of Albania.

Thus, in accordance with the provisions laid down in the Regulation No. 78/2020 "On the minimum requirements for regulatory capital instruments and eligible liabilities", the BoA has updated the methodological document for the method of calculating the MREL, for 2022.

In addition, the BoA is engaged in the preparation and drafting of two guidance documents related respectively to: (i) operational continuity in resolution situations, and (ii) liquidity and funding in resolution situations. These documents are drafted in accordance with the best European practises and are intended to help banks increase their ability for resolution, in accordance with the "Objectives of the ability for resolution and relevant principles" summarized in the previous Box.

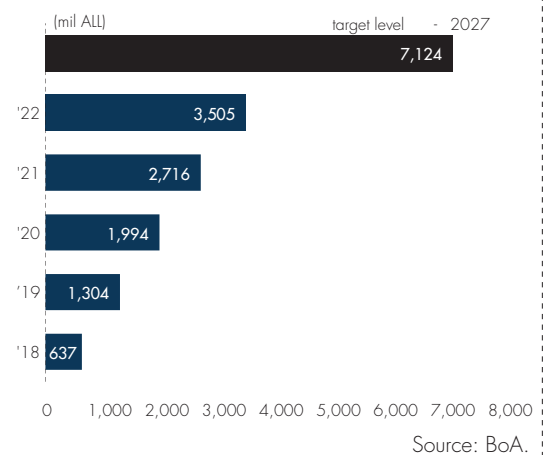
In addition, the Bank of Albania has drafted and approved the guidance manual "On the assessment of insolvency in the bank", which aims to align supervisory and resolution practices, in relation to the interpretation of the different circumstances of when a bank is considered to be close to an insolvency situation.

2.5.3. RESOLUTION FUND

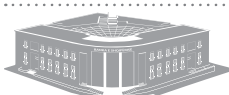
In accordance with legal and regulatory requirements, banks pay annual contributions to the Resolution Fund, in order to meet the target level of the Fund.

The BoA estimated the target level of the Fund for 2027 at 0.5% of the total liabilities of the banking sector, calculated as the difference between assets and capital of all banks licensed in Albania. Based on the latest assessment of 2022, the target level of the Fund is ALL 7.12 billion. After adding the banks' annual contribution to the Fund during 2022, at ALL 734.6 million, the Resolution Fund reached about ALL 3.5 billion at the end of 2022 Q3, reaching about 50% of the target level aimed for by 2027.

Chart 23 The Resolution Fund build up throughout the years and the targeted level for 2027 (ALL million)



The Bank of Albania regularly monitors the performance of the financial assets of the Resolution Fund, based on the periodic reports of the Deposit Insurance Agency, as the Fund's Administrator, based on the investment policy approved by the BoA. The investment policy follows the principles of liquid assets, low risk for debt securities and reasonable return on investments.



2.6. CURRENCY ISSUE

The Bank of Albania has the exclusive right for the issue and circulation of the national currency – the Albanian lek. The BoA determines the form, measure, weight, model, and other features of Albanian banknotes and coins of legal tender in Albania, as well as of coins and banknotes for numismatic purposes.

The Bank of Albania's objectives for banknotes and coins include improving the quality of banknotes in circulation, strengthening the engagement for protection against counterfeiting, and reviewing the themes, design and security features in the Albanian banknotes series of legal tender.

One of the main responsibilities of the Bank of Albania is to continuously ensure public confidence in the national currency. The central bank fulfils this responsibility by issuing a banknote that communicates security and stability to the Albanian public.

The Bank of Albania, on 17.1.2022, put into circulation the two last banknotes of the new series, 500 Lekë and 2000 Lekë. By putting these banknotes into circulation, one of its most important projects, the designing, printing and putting into circulation of the new series of banknotes, was successfully completed.

Completing the new series of banknotes with contemporary and sophisticated security features, has endowed the Albanian banknote with more durability, quality and credibility, and has given it a modern appearance.

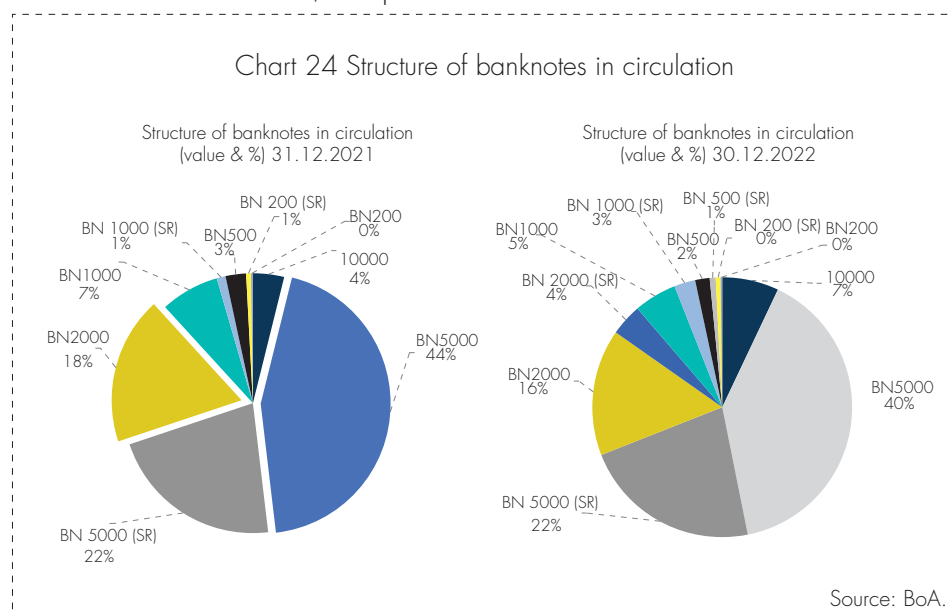


The value of banknotes in circulation¹⁴ increased in 2022

As of end-2022, there were around 161 million notes in circulation worth around ALL 394.7 billion. Compared to 2021, the number of banknotes in circulation increased by around 7.5 million notes (4.9%), while their value increased by ALL 23 billion (6%).

The average value of a banknote in circulation reached ALL 2448 at end-2022, from ALL 2421 at end-2021. The increase in the average value of a banknote in circulation is due to the change in the structure of banknotes in circulation in favour of banknotes with a nominal value of 10000 Lekë, 5000 Lekë and 2000 Lekë.

At the end of 2022, there were 257 million coins in circulation, compared to 241 million at the end of 2021. The value of coins at the end of 2022 reached 6.44 billion ALL, compared to 5.96 billion ALL at the end of 2021.



The quality of the banknotes in circulation is kept under control

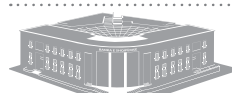
In 2022, around 100.8 million banknotes were processed, which were checked for authenticity and fitness for recirculation. The sorting rate¹⁵ was 20.7%, compared to 19% in 2021. Unfit banknotes were replaced case-by-case with new banknotes fit for circulation.

The banknote circulation coefficient¹⁶ for 2022 was 0.66, implying that a banknote is returned at the cash desks of the Bank of Albania, on average less than once a year. This coefficient is higher for 500 Lekë and 1000 Lekë

¹⁴ It is the number and value of banknotes put into circulation by the Bank of Albania.

¹⁵ Ratio of unfit banknotes and to the total number of banknotes sorted during one year.

¹⁶ Ratio of the number of banknotes received at the Bank of Albania cash desks to the average annual number of banknotes in circulation.



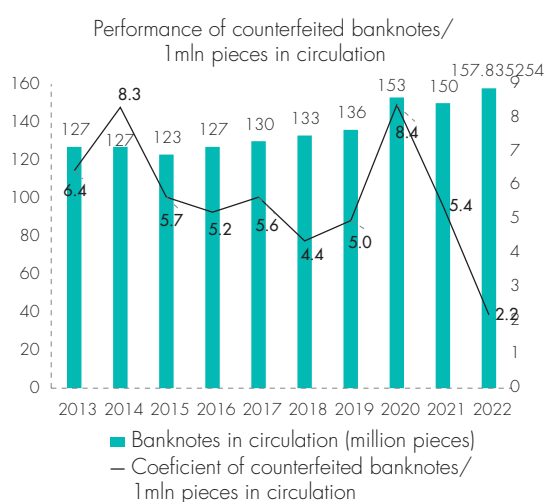
banknotes (around 1.28 and 0.98, respectively) and lower for 5000 Lekë, about 0.16, which shows that the latter are returned more rarely at the cash desks of the Bank of Albania.

Protecting banknotes and coins against counterfeiting

In view of safeguarding the currency from counterfeiting, the Bank of Albania has continued to organize activities for the prevention and protection against counterfeiting.

Throughout 2022, 343 counterfeit national banknotes and 79 counterfeit national coins were withdrawn from circulation. The coefficient of counterfeit banknotes per 1 million banknotes in circulation continues to remain at very low values. For 2022, this coefficient was 2.2.

Chart 25 Counterfeit banknotes statistics



Source: BoA.

By structure the 5000 Lekë and the 1000 Lekë denominations have the main share in the total counterfeit banknotes, followed by the 2000 Lekë and the 500 Lekë denominations. Amongst counterfeit coins, the 50 Lekë denomination continues to be the most counterfeited, in insignificant amounts compared with the genuine coins, followed by a pronounced downward trend, compared to the previous years.

From the technical and/or technological aspect of counterfeiting Albanian banknotes, colour digital printings dominate, mainly ink-jet accompanied by the use of additive artisanal and technological methods to imitate security elements.

Whereas, security feature imitations in counterfeit banknotes, readable by authenticating/sorting equipment has not been encountered in any case.



2.7. PAYMENT SYSTEMS

Operation, oversight and reform of payment systems are some of the main functions of the Bank of Albania. Their implementation guarantees the security, sustainability and efficiency of the basic infrastructure of payments in lek. This is a crucial precondition for transmitting the monetary policy, safeguarding financial stability and the overall economic growth.

In fulfilment of these responsibilities, the Bank of Albania, beyond the stable operation of payment systems, has paid particular attention to the oversight and catalysing role in the fulfilment of the National Retail Payments Strategy.

2.7.1. PERFORMANCE OF PAYMENT SYSTEMS

The Bank of Albania plays a key role in promoting the normal functioning of payment systems through the operation and administration of three main infrastructures for the processing of interbank payments and one infrastructure for the settlement of securities. AIPS system is considered the core infrastructure for the settlement of payments in the national currency, the settlement of transactions of financial markets; the AECH system enables the clearing of interbank transactions with a value of less than ALL 1.5 million of bank clients (households and enterprises); the AIPS EURO system, which began live operation on 24 January 2022, represents the newest infrastructure that settles euro payments domestically. This system enables the gross settlement, in real time, of clients' payment orders of participants in the system for payments in euros, within the territory of the Republic of Albania. Also, since 2015, the BoA operates the central system of settlement and registration of transactions with government securities - AFISaR. During 2022, all systems have operated smoothly and in accordance with the rules and operating schedules laid down in the relevant regulations, providing maximum availability.

AIPS - Albanian Interbank Payment System for large-value payments

In the AIPS system, a volume of 153,972 transactions was settled during 2022, with a total volume of liquidity circulated in the system of ALL 13,020 billion, reflecting an annual increase of 11.1% in number, and 21.0% in value. Also, the value of transactions processed in AIPS as a ratio to GDP¹⁷, trended upward, by imposing an increase in the use of the system and the importance of this system to the Albanian economy. From the point of view of the distribution of transactions according to typology in the AIPS system, the item "Payments for customers" (item with the main share of payments in terms of number, of 72.2%) continues to show increasing rates.

¹⁷ BoA's GDP assessment for 2022.

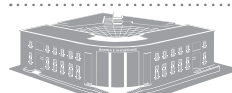
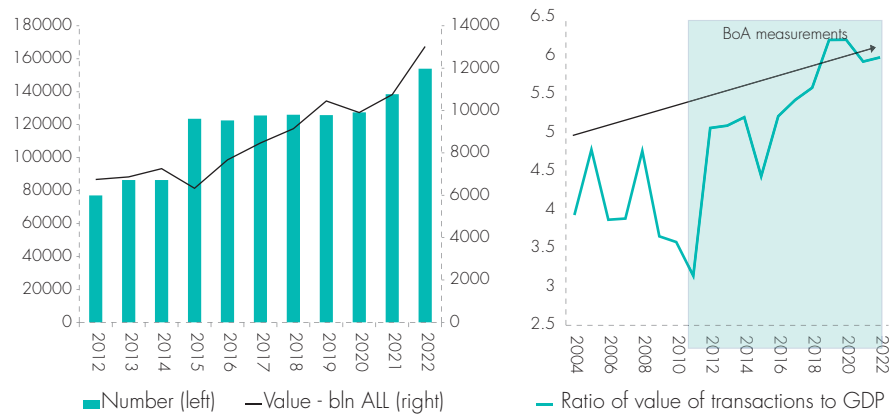


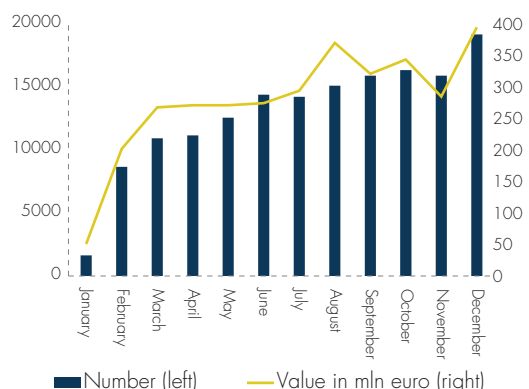
Chart 26 Number and value of transactions processed in AIPS, and their ratio to GDP.



Source: BoA.

The intraday loan facility (ILF) is an AIPS system instrument offered by the Bank of Albania to participating banks in order to manage daily liquidity and ensure normal continuation of interbank payments operation. During 2022, banks received 319 ILF with a value of about ALL 271.4 billion. Compared to the previous year, there is a significant increase in the number and value of ILFs, by about 61.9% and 23.9%, respectively. Despite this, the ratio of the value of ILFs to the total value of the activity of the AIPS system results in 2.1%, being close to the levels during the pre-pandemic years. The low value of this ratio indicates that the system's exposure to liquidity risk is low.

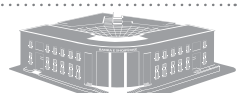
Chart 27 Progress of the number and value of transactions for customers processed in the AIPS EURO system



Source: BoA.

Payment settlement system in euro within Albania (AIPS EURO)

In the first year of its operation, 156,044 customer payment transactions were processed in the AIPS EURO system, with a total value of approximately EUR 3,346 million, dictating an average value per transaction (for customers) of EUR 21,445. The chart below shows the progress of the AIPS EURO system throughout 2022, where an ever-increasing use of the system by bank customers is noted, especially in the second half of the year.



BOX 3: THE AIPS EURO SYSTEM FOR THE SETTLEMENT OF DOMESTIC EURO DENOMINATED TRANSFERS WITHIN ALBANIA

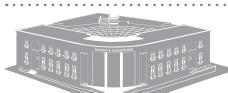
One of the objectives pursued by the Bank of Albania in recent years, has been modernization of payment systems, with the aim of promoting the use of electronic payments and bolstering financial inclusion. In this regard, on 24 January 2022, the AIPS EURO system began to operate, which enables Albanian citizens to make payments in Euro within Albania at much lower costs, as well as within a much shorter time-period than the process carried out previously through correspondent banks.

The project is a result of several years of work, conceived in 2016, in the framework of the recommendations of the National Payment System Committee. A study drafted by the BoA in cooperation with the Albanian Associations of Banks in this regard identified the costs borne by the banking system for carrying out transactions in euros through correspondent banks, which reached a very significant annual value. These costs are channelled as costs for the consumer, Albanian enterprises and the economy as a whole. Based on this analysis and on market studies, aiming to reform and modernize the payment system, the project became part of the action plan of the National Retail Payments Strategy in Albania (2018-2023).

In the medium term, the system is expected to have a significant impact on a wide spectrum of factors in the Albanian market. The AIPS EURO system is estimated to contribute to the maintenance of financial and monetary stability as it has created an additional mechanism for the Bank of Albania for monitoring this segment of the payments market. The operation of the AIPS EURO system also has a positive impact on households, enterprises, and the wider economy, thus reducing the time and costs for processing payments. In concrete terms, the commissions applied in this system do not exceed the amount of 50 Euro in any case, while previously they could vary by up to 200 or 300 Euro per transaction. Also, before the AIPS EURO system existed, in addition to commissions for departure transfers, customers also paid commissions for arrival transfers, both of which are now avoided.

From the point of view of volume, there is a significant increase in interbank transactions compared to those processed in the same period last year through correspondent banks. In this perspective, it can be said that the project has direct and indirect effects on the well-being of the client, the bank and the economy as a whole. It is necessary to note that due to the very fact that payments are carried out within Albania, in addition to the shorter time required for the payment to be processed, benefits are also evident in cases when inaccuracy occurs during the payment process, where the solution to the problem will be much more easily and quickly discovered, compared to the processing of payments through correspondent banks. For these reasons, it is a positive development that payments in euro within Albania will now be regulated in their entirety by the legal and prudential regulatory framework of consumer protection created by the law "On payment services".

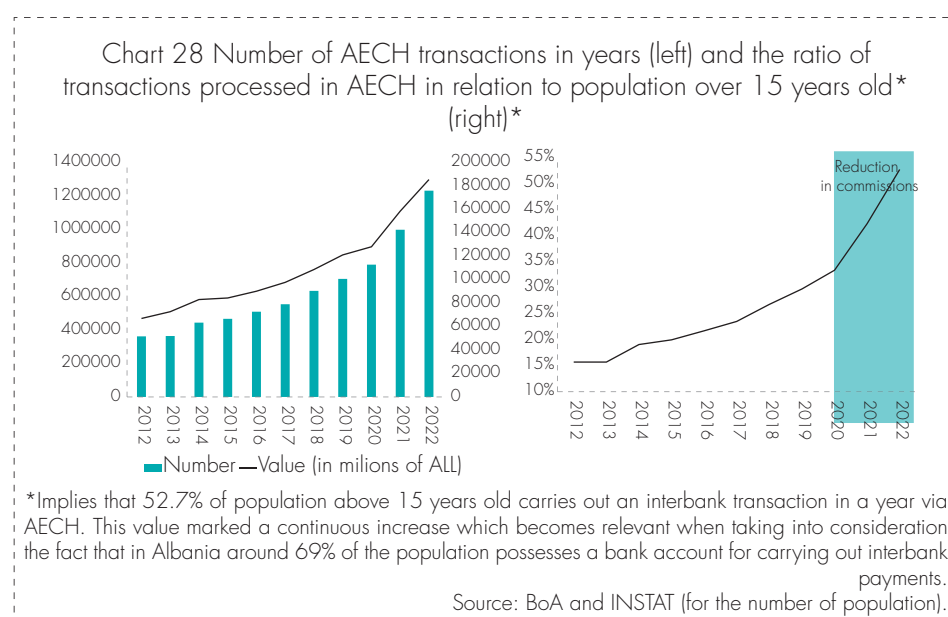
The potential reduction of euro-denominated cash management by banks is an added value of this project, if this system will be widely used. Consequently, the issues and costs incurred by this process will decrease. The AIPS EURO can be considered as an added instrument within the framework of the formalization of the economy, bolstering financial inclusion and reducing cash, hence leading to the promotion of e-payments.



Albanian electronic clearing house for retail payments (AECH)

The activity of the AECH system has continued to grow in 2022. The number of cleared transactions was 1,231,847, increasing by 23.3% compared to 2021. Their value reached ALL185,475.62 million, up by 17.1%.

The ratio of transactions carried out in AECH in relation to the population continued to increase, indicating a wider use of this system by the public. The continuous increase of transactions processed in the AECH system, mainly for payments to bank customers¹⁸, reflects the efficiency of the measures taken by the BoA on the commissions applied by banks.



The most recent regulatory amendment for the use of the system is that of 2020, which provides for the elimination of commissions for retail payments initiated electronically (home-banking) up to the amount of ALL 20,000, as well as the differentiation of fees for the other part payments initiated electronically up to 50% of those initiated in paper form, with the aim of expanding the use of this system. These measures have been reflected in a faster growth of payments under ALL 20,000, suggesting that electronic credit transfers are finding use in the daily life of the general public.

Albanian Financial Instrument Settlement and Registration System (AFISaR)

The AFISaR system, which has been operating since 2015, is the central system for the settlement and registration of transactions with government securities.

¹⁸ The analysis of the indicator of the distribution of payments according to participants shows that payments for customers initiated by banks continue to occupy the main weight of transactions processed in the AECH system, prevailing over transactions initiated by other participants (MFE and BoA).



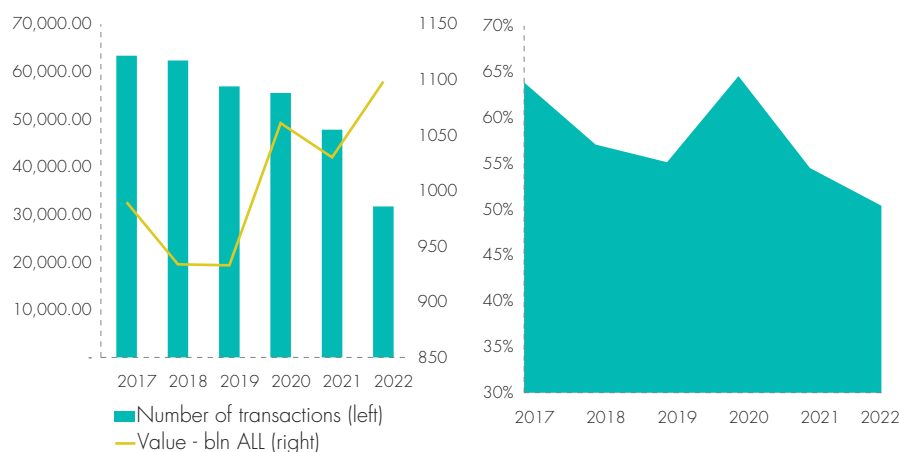
This system is operated by the BoA in the capacity of fiscal agent. Through the AFISaR system, the Bank of Albania offers the issuer (Ministry of Finance and Economy) and the market, the organization of auctions for the issuance of Albanian State securities in the domestic market both in lek and the euro, as well as the settlement and registration of transactions with these securities in the secondary market - actions where the collateral is the securities of the Albanian State or the reverse repurchase agreements with the subject these securities. The system also provides tax collection services for securities income and interest payment events. It informs account holders in this system about the balance and movements in these accounts.

At the end of 2022, the AFISaR system registered 15 financial institutions as direct participants, including 1 issuer (Ministry of Finance and Economy) and 1 central bank (BoA), 7 indirect participating financial institutions with accounts through the Bank of Albania, and connection with 1 Private Stock Exchange. At the end of 2022, there were 18,934 individual accounts in the AFISaR system opened through the Bank of Albania.

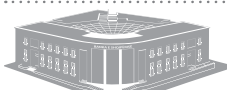
At the end of 2022, the total nominal value of Albanian securities issued in the domestic currency in the AFISaR system, was ALL 712.21 billion, up by 5.4% from the end of 2021. Issue in the European currency decreased by 31% compared to the previous year, at EUR 69 million.

In terms of transactions, the volume processed during 2022 was 31,705 transactions. Although down by 34% from a year ago, the value of transactions recorded during the past year increased by 6.7% at ALL 1,071 billion. The decrease in the number of transactions continued from 2021 and is related to the Supervisory Council's decision to close the mediation activity of households' requests in government T-bills auctions. The number of these transactions is high but their value is relatively low. Trading in the primary and secondary market,

Chart 29 Performance of the AFISaR system according to the number and value of processed transactions (left), and in percentage to GDP (right)

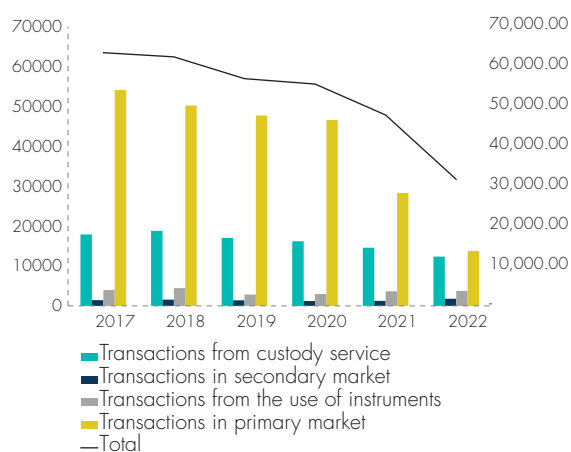


Source: BoA.



as well as the use of instruments by commercial banks dominated in value, thus, in absolute terms, making the increase of traded value positive. In relative terms, the value of transactions in relation to GDP decreased for the second consecutive year.

Chart 30 The performance of transactions in the AFISaR system according to four main group-types



Source: BoA.

When analysing the use of the AFISaR system for four general types of transactions, for the above-mentioned reasons that led to the decrease in the total number of transactions, the latter, in the primary market and custody transactions (Tax collection, coupons payments, etc.) decreased by 50% and 15%, respectively. Transactions in the secondary market increased by 41%, and transactions using collateralized instruments increased by 2%. Meanwhile, although up from the previous year, the transactions concluded in the stock exchange and settled in AFISaR, remained at a minimum level of 10 transactions during 2022.

2.7.2. PAYMENT INSTRUMENTS

The year 2022 was characterized by an upward trend in the use of electronic payment instruments. Banks' reports on payment instruments show a continuous increase in card payments, electronic money payments, and home banking payments.

The number of payments in total increased by 18.1% in 2022, reaching 33.7 million payments. The total value of payments was ALL 5,767 billion, up by 9.0% compared to the previous year.

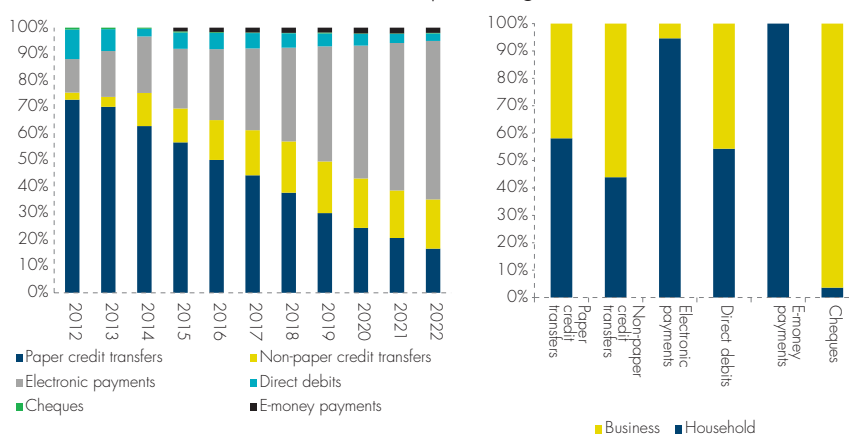
Card payments were the main payment instrument in terms of the number of payments, surpassing for the third year in a row, credit transfers in paper form, which has been the most used payment instrument over the years. The number and value of card payments increased by 26.9% and 36.6%, respectively, compared to 2021. However, the value of these payments had a share of 3.0% in relation to the entire value of payments made.

Home-banking payments exceeded the number of cash transfers for the first time, coming in second place among the most used payment instruments (18.6%, as the number of payments to the total of all payments). The rapid trend of increasing use of home banking shows the greater familiarity of the public with this instrument as well as its promotion by the banking system. In particular, the number of payments made through the mobile banking service, which reached 2.3 million transactions, represents an increase of 29.3% compared to the previous year. They reached ALL 267 billion, with an annual growth of 21.7%.



Likewise, electronic money payments in the banking system grew during 2022, but the value of these payments still remains at low levels (0.1% of the total of all payments for 2022). E-money or prepaid payments are used exclusively by households and not by enterprises, while the same trend is also observed in card payments, which continue to be used more by households than by enterprises (94.7% households and 5.3% enterprises). On the other hand, enterprises continue to use more traditional forms of banking (credit transfer in non-paper form, checks, etc.) compared to households, who have embraced the innovations offered by the banking market.

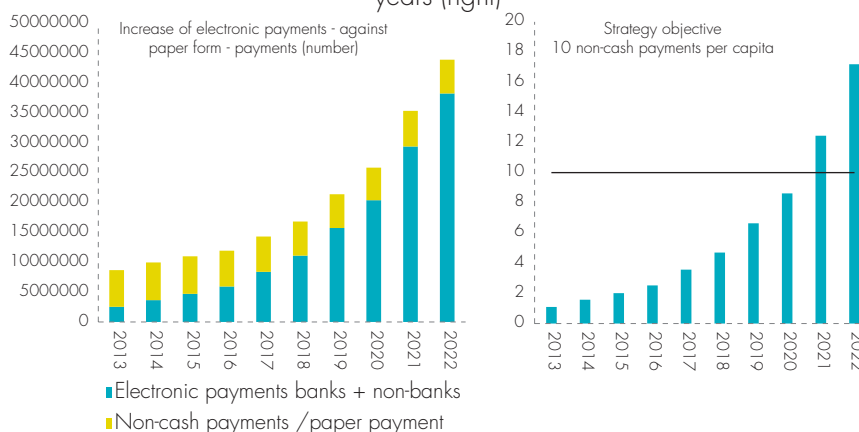
Chart 31 Performance of the number of payment instruments over the years (left) and the number of payment instruments used during 2022 by households and enterprises (right)



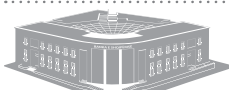
Source: BoA.

The progress of electronic payments throughout 2022 has contributed to the fulfilment of the quantitative objectives of the National Strategy of Retail Payments (2018-2023), reaching a level of use of electronic payments per capita at 17.19 out of 10 payments which is the objective of the Strategy. Also, positive developments have been noted in the expansion of the percentage of the population that owns a payment account.

Chart 32 Performance of the number of electronic and cash payment instruments in years (left); number of payments per capita (+15 years old) in years (right)



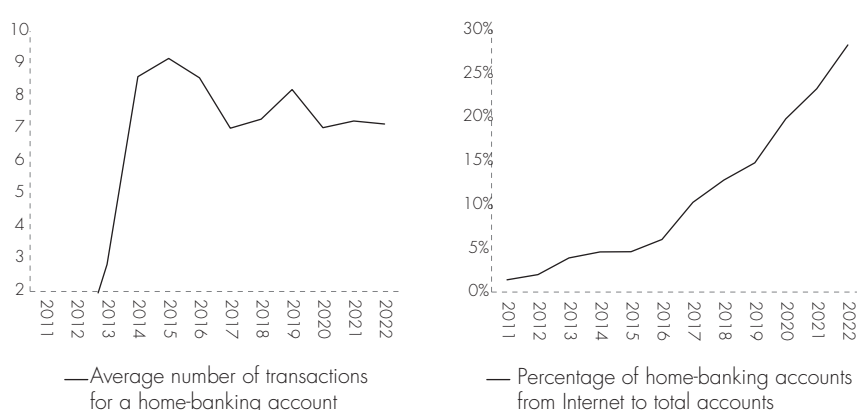
Source: BoA.



Home Banking

The initiation of credit transfers in electronic form is carried out through “home banking” services¹⁹, offered by 11 banks,²⁰ and is increasingly being used in the Albanian market. It is being used not only for basic account status information services, but also for carrying out on-line payments. In 2022, a significant increase in the volume of payments and the value of “home banking” transactions is observed, in concrete terms at 22.4% and 29.7%, compared to the previous year. What contributed to the use of home banking are the measures taken by the Bank of Albania to reduce commissions, but also the development of the infrastructure, the spread of opportunities to access the Internet, as well as the familiarization of bank customers with the use of this instrument. Also, it is estimated that bank policies have played a positive role in the promotion of these alternative payment methods, which is reflected in the increase of accounts accessible remotely by about 24.0% and an increase in accounts accessible from the Internet to the total of all customer accounts by 28.3% during 2022.

Chart 33 Volume of home banking transactions to total accounts and online accessible account*



Source: BoA.

Bank cards

At the end of 2022, all the 11 banks that operate in the Republic of Albania were licensed as card issuers, of which seven were licensed also as card accepters. The infrastructure provided by these banks has trended upward in terms of the number of POS terminals, increasing significantly by 18.1% compared with 2021. In addition to the positive trend of increasing the number

¹⁹ These products provide remote access to the bank account, via on-line, telephone or software that the bank makes available to its customers.

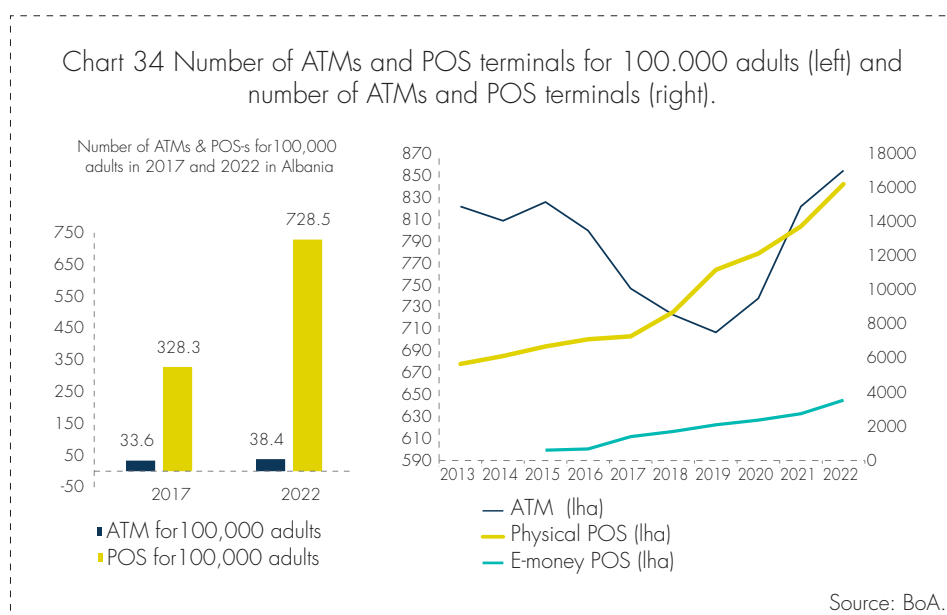
²⁰ At the end of 2022, the banking system in Albania had a total of 11 banks, compared to 2021 where there were 12 in total.



of POS terminals, their concentration continues to be quite high in the district of Tirana²¹ (83.3%), where the largest number of entrepreneurs and population is also concentrated. On the other hand, there has been an increase in the distribution of the POS terminals in other regions in the territory of the Republic of Albania during 2022 (except in Elbasan). Also, the use of cards at POS terminals increased by 35.5% compared to the transactions carried out at these terminals during the previous year.

The number of ATMs increased by 4.0% compared to 2021. Despite the fact that ATMs are mainly used for cash withdrawals, throughout 2022 we have an expansion of the function of ATMs that enable deposits to be made, a function which was used at higher levels than in 2021.

The number of ATMs and POS terminals per 100,000²² adults in Albania increased over the last 5 years, which shows a familiarity of the public with this service, as well as the higher use of cards at the points of sale where this service is offered. The growth of this indicator helps to increase the financial inclusion of the population and the formalization of the economy.

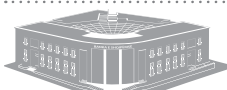


Cash transactions

Cash transactions carried out by customers at bank's windows decreased in number (by 9.2%) and a slightly increased in value (by 1.3%), in 2022 compared to the previous year. The use of cash in the Albanian economy still remains a dominant phenomenon, which carries high costs for various actors and the economy in general. In this context, the coordination of efforts at the market level to encourage the use of the most efficient and low-cost instruments

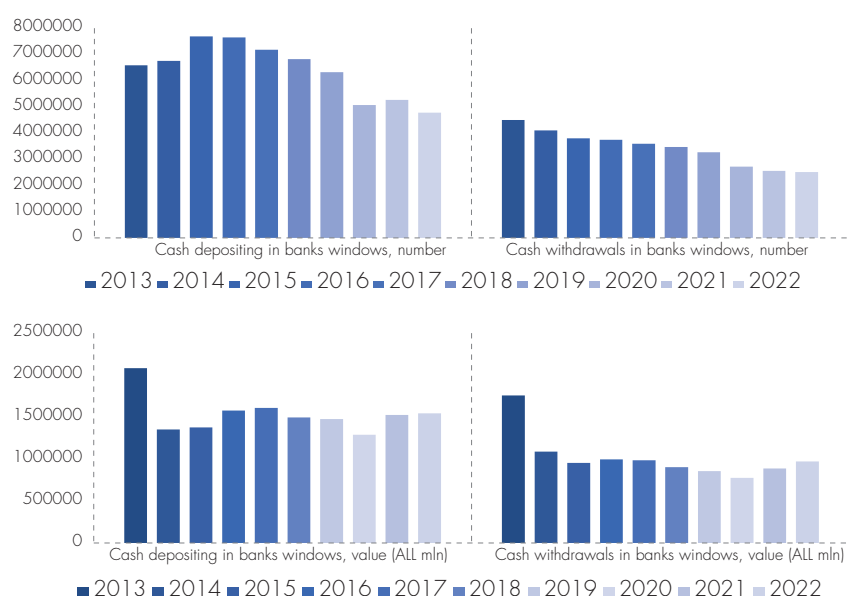
²¹ Regions are divided according to the branches of the Bank of Albania.

²² The adult population (over 18 years old) in 2022 is 2,227,586 (Source: INSTAT).



is of particular importance and constitutes one of the priorities of the Bank of Albania²³.

Chart 35 Number and value of cash transactions at bank's windows (households and businesses)



Source: Reports submitted by banks according to the "Methodology for reporting payment instruments".

2.7.3. ELECTRONIC MONEY INSTITUTIONS

Electronic money products, based on the legal and regulatory framework of the Bank of Albania, are also offered by non-bank financial institutions licensed as electronic money institutions. Throughout 2022, 9 electronic money institutions have operated in the Albanian market, from which only 7 managed to stay in operation to the end of 2021. The increase in the number of electronic money institutions also came as a result of the adoption of the law "On payment services". In 2022, these institutions together performed a volume of approximately 10.2 million electronic money payments, with a value of ALL 45.35 billion.

The number of payments with electronic money has significantly increased in both number and value in 2022, specifically at 50.2% and 190.2%. Although the number of electronic money payment transactions has reached 30.3% of the total of all payments passing through the banking system, in value, the payments made through this instrument by electronic money institutions remain at quite low levels, or less than 0.8% of the total value of payments made.

²³ The Bank of Albania is cooperating with the World Bank as the main international partner for the drafting of the National Strategy for Education and Financial Inclusion (2022-2027).



The increase of the number of electronic money institutions has also brought a wider range of terminals that they provide for their customers (both physical and virtual), specifically with a significant increase of 123.3% compared to the end of 2021. The use of electronic money provides convenience mainly to that part of the Albanian population that does not own a bank account. The advantages for this part of the population consist in increased flexibility for carrying out payments, considering the increase in the number of these institutions in the country, but also in a lower cost for the payments made, especially for the payment of fines, monthly utility bills, etc.

2.7.4. PAYMENT SYSTEM OVERSIGHT AND THE REFORMATORY ROLE

In 2022, the Bank of Albania continued the work to achieve the objectives of the National Strategy of Small Value Payments (2018-2023), fulfilling to a significant degree the action plan of this strategy. In this direction, a series of legal and regulatory measures, as well as infrastructural developments, have been undertaken.

Improving the legal and regulatory framework

The Bank of Albania has continued the work to complete the regulatory framework in implementation of the law "On payment services", a very necessary step for the implementation of the law in practice and the promotion of the intended results (for the approved regulations, please see section 2.4.3 Review of the legal and regulatory framework, above).

Meanwhile, in 2022, the draft regulation "On the exercise of activity and supervision of payment institutions" was drawn up, which is in the process of consultation with the relevant entities. The object of this regulation is to determine the rules for exercising the activity of payment institutions and for the administration of the risks related to this activity, as well as for their supervision.

Another important step, within the framework of the National Strategy of Retail Payments (2018-2023), is the drafting of the draft law "On the account of payments with basic services", which is in the process of consultation with the involved parties. This draft-law is considered an important element in promoting financial inclusion. Specifically, its object is to determine the terms and conditions for opening and using a payment account with basic services for consumers and households, including in particular those who are not covered by banking services, regardless of income level, employment status or history of solvency within the Republic of Albania.

At the end of 2022, the regulation "On the comparability of fees related to payment accounts and for the service of transfer of payment accounts" was adopted, and it enters into force on 1 March 2023. The object of this regulation is to determine the requirements on the transparency and comparability of the



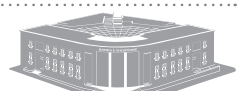
fees charged to consumers for their payment accounts, as well as to determine the requirements for the transfer of payment accounts between payment service providers.

Infrastructural developments and the reformatory role of the BoA

One of the main achievements of the Bank of Albania in 2022 was the creation and operation of the AIPS-EURO system for interbank payments in euro within Albania, analysed more in Box 3.

Another project of great interest, within the framework of the implementation of the Albanian National Retail Payments Strategy, is that of instant payments. This innovation in the field of payments aims to expand services and payment instruments, promote competition between different instruments in order to reduce costs, as well as cover market segments that do not use electronic instruments.

In fulfilling its role as a catalyst, the BoA has supported and organized several meetings and consultations with various actors or third parties involved in the payment market. In November, the National Payment Systems Committee (NPSC) held its eighth meeting, where the main legal, regulatory and infrastructural developments in the payment market were discussed. A special space was devoted to the role of financial education in promoting financial inclusion. In this framework, the discussions were focused on the work carried out for the creation and implementation of the National Strategy for Education and Financial Inclusion.



2.8. INTERNATIONAL RESERVE MANAGEMENT

The Bank of Albania is the national responsible authority for maintaining and managing the international reserve of the Republic of Albania. It uses its best opportunities to achieve and maintain a certain level of international reserve, conducive to Albania's financial stability, and in accordance with the monetary policy.

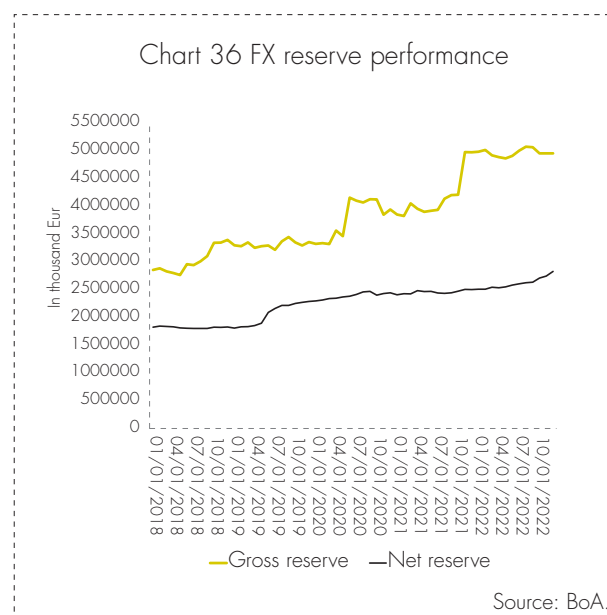
The Regulation "On the policy and management of the international reserve", approved by the Supervisory Council, lays down the purposes of maintaining the international reserve. In accordance with the best international practices, the goals of maintaining the international reserve, in addition to the implementation and support of monetary policy and exchange rate policy, includes safeguarding of financial stability. Liquidity and security are defined as the primary objectives of the exchange reserve management process. Ensuring returns from reserve funds management represents a third objective, as long as it does not infringe the objective for liquidity and security. The Supervisory Council also approves the qualitative principles and criteria for the development of international reserve management.

Allowed entities in which the international reserve is invested include the governments of the USA, Japan, United Kingdom, Canada, Australia and those in the euro area, which overall are rated at least A- (for the euro area governments the accepted minimum rate is BBB²⁴). The entities allowed for investment also include agencies or institutions related to governments, multilateral institutions or other entities rated at least AA- (for banks/other financial institutions, the accepted minimum rate is A-).

At the end of December 2022, the stock of the gross international reserve is EUR 4,955.95 million, including monetary gold (about 97.39 thousand ounces or 3.03 tons).

Composition of the reserve portfolio by currency

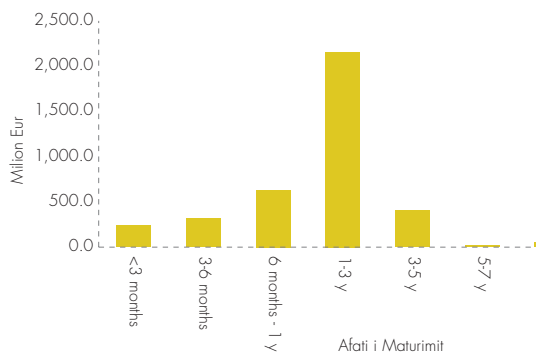
At the end of December 2022, the composition of the gross international reserve was: USD 17.7%; EUR 66.2%; GBP 2.1%; JPY 2.0%; AUD 1.0%; SDR 5.6%; Gold 3.3%; RMB 2.2%. Exposure in the currencies AUD (Australian dollar) and RMB (Chinese renminbi) reflects the decision of the Supervisory Council to invest part of the reserve in accordance with the SDR basket. The share of the currency RMB is allocated in two currencies, RMB and AUD, in accordance to a ratio approved by the Investment Committee.



²⁴ Names / instruments listed up to BBB- are included in the category "For investment" (investment grade).



Chart 37 Distribution of reserve by maturity of instruments*



*The chart does not reflect the funds held in the current account. The balance of current accounts at the end of the year is about Eur 700 million.
Source: BoA.

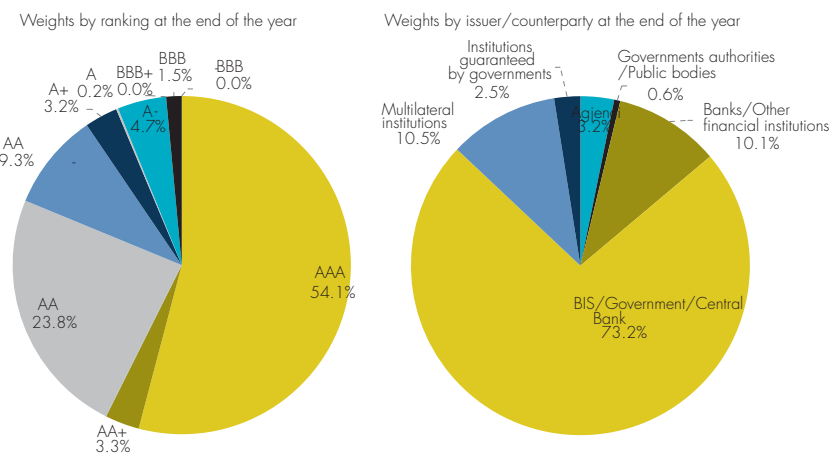
The composition of reserve portfolio by maturity term

The international reserve is invested in liquid assets, mainly with a maturity of 1 - 3 years. The share invested in debt instruments with a term of over 5 years has been reduced compared to the previous year, representing about 2% of the reserve portfolio invested in securities at the end of the year. Given the significant increase in interest rates in the main economies, the share invested in debt instruments against the total stock of investment reserve has increased significantly during this year. The portfolio managed by the external administrator (World Bank) continues to be invested against a 1-3 year reference portfolio, mainly in debt instruments issued by governments and government agencies.

Composition of the reserve portfolio by rating and type of issuer/ counterparty

Around 90.5% of the international reserve portfolio resulted invested in names with high quality rating (class AAA and AA including exposures in current accounts). Exposures by type of issuer/counterparty are represented by governments/central banks (73.2%), followed by agencies (3.2%), multilateral institutions (10.5%), banks/other financial institutions (10.1%), institutions guaranteed by governments (2.5%) and government authorities/public bodies (0.6%).

Chart 38 Composition of the reserve portfolio by evaluation (left) and counterparty (right)



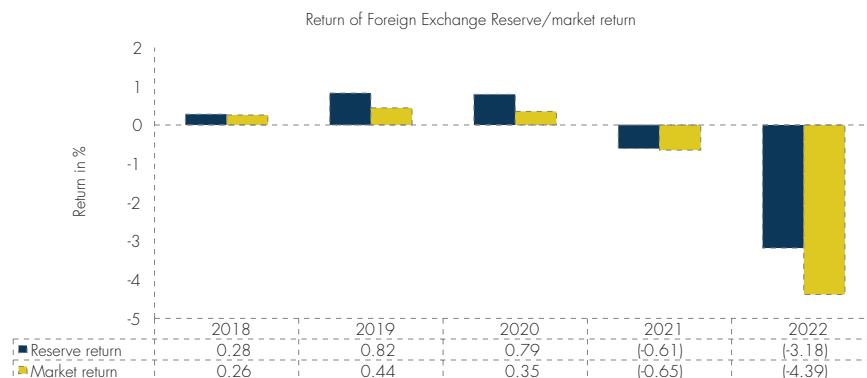
Source: BoA.

Return on the investment of reserve portfolio

The absolute return of the total reserve for 2022, including the fund managed by the World Bank, was negative at (3.18) %. The return generated by active management of the reserve portfolio has been slightly negative.



Chart 39 Return of Foreign Exchange Reserve*, **



*For the purpose of comparison, in the chart, the market return reflects the aggregate performance of the markets in developed countries according to the share that the main currencies Eur, Usd, Gbp, Jpy and Aud have in the foreign exchange reserve portfolio.

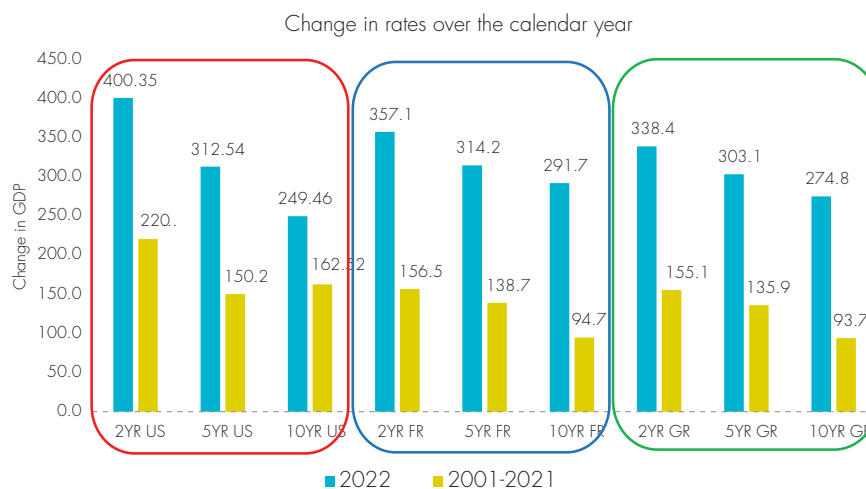
**The return estimation does not account for the exchange rate effect.

Source: BoA.

The negative return of the reserve portfolio came as a result of the significant and unexpected increase in interest rates during 2022 in the main currencies/markets in which the foreign reserve portfolio is invested. The size of the interest rate hike and the growth rate are considered unprecedented.

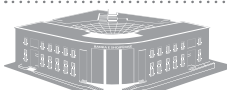
The start of a rising US interest rate cycle by the end of 2021 was followed by the start of policy rate hikes by the Federal Reserve from March 2022 onwards. In July, the European Central Bank also started to increase the policy interest rate, moving first to a neutral level (0 percent) and then, in September, to a positive policy rate. The increase in interest rates is associated with a decrease in the price of bonds in the portfolio and therefore with a decrease in the value of the portfolio, recording a negative return on investment for the period²⁵. Chart 38 shows the risk (volatility) of rates during 2022 compared to the ones during the last 20 years.

Chart 40 Change of interest rates in international markets



Source: Bloomberg.

²⁵ We recall here the inverse relation between the interest rate and the security price in the portfolio.



On the other hand, the increase in interest rates has created opportunities for the realization of new liquidity investments with higher interest rates, leading to the beginning of the gradual improvement of income from coupon securities. The increase of income from coupons will mitigate the effect created by the capital loss that will be recorded in case of sale of securities/liquidation of reserve portfolio investments.

Other developments related to the international reserve

In the framework of the periodic reassessment of the weight of monetary gold in the foreign exchange reserve, at the beginning of February, the Supervisory Council decided to purchase 23 gold ingots (9,200 oz or about 0.29 tons of gold). Purchases of monetary gold were made during February - March.

Cooperation with the World Bank in the framework of Reserves Advisory Management Program (RAMP) continued in 2022. The World Bank has continued to provide training and specialized education programs. These qualifications aimed at consolidating and increasing the level of professionalism of the employees engaged in the process of administering the foreign exchange reserve, of the staff that supports or monitors the progress of this process, as well as of the Bank's staff in general.

Considering the primary objectives of the foreign exchange reserve administration process, which are liquidity and security, we were able to renew and postpone the deadline for some agreements that serve the Bank of Albania to preserve the availability of the necessary liquidity with the aim of maintaining and supporting the financial stability of country. During 2022, two amendments were signed with the European Central Bank related to the postponement of the existing agreement for the collateralized credit line at the amount of EUR 400 million. The new deadline for this agreement is January 2024. The agreement based on Repo with the Bank for International Settlements was also renewed, for the amount of EUR 500 million. In support of liquidity needs is the Swap agreement with the People's Bank of China, for the amount of Rmb 2 billion.

Regarding the information technology infrastructure that supports the activity of foreign reserve administration, during 2022 a preliminary assessment process on the needs of the Bank of Albania for obtaining a new system to support the activity of foreign reserve administration and beyond, was carried out. The project is estimated to last for at least 2-3 years.



BOX 4: FLOWS AFFECTING INTERNATIONAL RESERVE IN 2022

During 2022, the gross international reserve, estimated and reported in the euro, decreased by Eur 18.07 million, at Eur 4,955.95 million at the end of December. The main factors that have impacted the gross foreign exchange reserve are grouped below:

- Transactions with the Ministry of Finance and Economy provided a negative impact, estimated at EUR 447.5 million, according to the following items:
 - net inflows from extension of various loans from the World Bank at EUR 247.90 million;
 - net outflow from the renewal of foreign currency debt in the domestic market in the amount of EUR 30.87 million;
 - Transfers (outflows) for debt service and other of at Eur 664.53 million.
- Transfers from commercial banks and other entities provided a positive impact in the amount of EUR 322.63 million, according to the following items:
 - transfers from commercial banks to their account at the Bank of Albania to fulfil the required reserve, to manage the balance sheet exposures, etc. at EUR 3,395.07 million;
 - transfers from commercial banks at the amount of EUR 3,065.95 million;
 - net outflows for the account of other entities (IDA, etc.) at EUR 6.49 million;
- Bank of Albania's transactions provided a positive impact, estimated at EUR 210.66 million, according to the following items:
 - net purchase of foreign currency by commercial banks and other institutions at EUR 202.22 million:
 - from commercial banks at Eur 131.54 million,
 - from the Ministry of Finance and Economy at Eur 60.60 million,
 - From other institutions, at EUR 10.08 million;
 - Inflows from interests, coupons, etc. (calculated on a cash basis) created by the investment of the foreign exchange reserve, calculated at Eur 18.78 million;
 - Transfer at Eur 10.34 million.
- Market factors provided a negative impact in the amount of EUR 103.86 million, according to the following items:
 - fluctuations in the exchange rate of the currencies constituting the foreign exchange reserve have positively affected the value of the gross reserve reported at the amount of Eur 51.93 million;
 - the revaluation effect for the portfolio, as a result of interest rate fluctuations, is calculated at a negative value of Eur 155.79 million².

¹ The net effect of SWAP transactions carried out with the Ministry of Finance and Economy for 2022 is EUR 32.4 million, while the total volume (considered purchase-sell) is EUR 700.4 million

² This value contains also the impact created from the payment of coupons and securities and is corrected for transactions of purchase/sale/maturity of securities on cash basis.



2.9. STATISTICS

The BoA creates, collects, compiles and shares a wide range of statistics and data needed to support its functions. The statistics function at the Bank of Albania aims to produce unbiased, objective and reliable statistics in service and in fulfilment of the legal objectives of the Bank, as the central bank of the Republic of Albania and as a statistical agency within the National Statistical System.

Official economic and financial statistics are beneficial to the general public and economic agents and support political decision-making processes in many areas. Statistics affect investment decision-making and market prices; they provide the basis for the development of economic policies and help the individual to make well-informed decisions on savings and capital investments. Therefore, reliable economic and financial statistics are indispensable for the whole society.

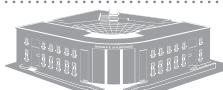
The Bank of Albania provides numerous products and services to meet this need for statistical data, which has grown even further over the last decade. More than 300 statistical tables shown on the Bank of Albania website provide current and historical data on interest rates and exchange rates, on the financial behaviour of households and businesses, on means of payment and international financial flows.

In addition, the Bank of Albania publishes a series of regular and ad-hoc statistical reports and analyses that provide specific information on current economic topics and operates a direct contact with the public for questions and information on the statistics it produces.

At the same time, the Bank of Albania also provides a wide range of statistics to national and international organizations under various mandatory data distribution programs. Recipients of the Bank of Albania's statistical data include European institutions such as the ECB and Eurostat, international organizations such as the IMF and BIS.

In order to meet the need and demand for growing volumes of data and to maintain their quality, the Bank of Albania continues to address the creation of a strong national statistical framework to be seamlessly integrated into the European one and to rely on modern IT infrastructures and trained specialists.

In 2022, the statistical function of the Bank of Albania continued with increased activities in order to achieve full statistical compliance with the requirements that will be placed before it as a central bank member of the European System of Central Banks. In this regard, new statistical indicators and reports have been developed working on the approximation of existing statistics, and the publication of detailed statistical indicators has begun in accordance with the



time frame provided in the Data Transmission Program at Eurostat.

With the focus and function of the methodological alignment of statistics with international standards and their harmonization according to the *acquis communautaire*, the following has been achieved:

1. *The approximation of Regulation No. 1073/2013 of the European Central Bank regarding statistics on assets and liabilities of investment funds (reviewed) (ECB / 2013/38)"*
2. *The approximation of Regulation No. 1374/2014 of the European Central Bank on statistical reporting requirements for insurance companies (ECB / 2014/50)*
3. *The approximation of Regulation No. 2018/231 of the European Central Bank on statistical reporting requirements for pension funds (ECB / 2018/2)²⁶*

The above-mentioned regulations fully ensure harmonization with the regulatory basis of the European Central Bank, in relation to the balance of the situation of the sector of other financial institutions and align the regulatory basis in the field of statistics with the *acquis* of the European Union. Their implementation shall be realized in 2023. Pursuant to the Memorandum of Cooperation between the Bank of Albania and the Financial Supervision Authority, in order to implement these three regulations, data reporting forms will be collected by the AMF and will be sent according to the specified calendar. This mode of cooperation has been established to ease reporting difficulties for entities.

4. *Compliance with reporting standards in accordance with EC Regulation²⁷ on Balance of Payments Statistics*

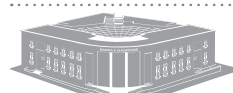
In the transmission of Balance of Payments data to Eurostat, the Bank of Albania has achieved a high degree of compliance with the 6th edition of the BP Manual and the Investment Position. Achievements have been noted in terms of compliance with the *acquis* related to International Trade in Services Statistics (ITSS), through methodological and infrastructural harmonization.

5. *Reporting for the first time to EUROSTAT the complete financial accounts of Albania on a transaction basis for all sectors of the economy*

Since 2021, the Bank of Albania has been committed to an ambitious agenda for the drafting and reporting to EUROSTAT of complete information on financial accounts according to ESA 2010 for stock data, transactions and other changes in volume. Pursuant to the ECB guidelines for reporting in the field of quarterly financial accounts, improvements have been made in the methodology, in terms of deadlines and the quality of financial accounts. Quarterly financial

²⁶ The Supervisory Council of the Bank of Albania approved the regulations in December 2022.

²⁷ Regulation (EC) No 184/2005 of the European Parliament and of the Council of 12 January 2005 on Community statistics concerning balance of payments, international trade in services and foreign direct investment (OJ L 35, 8.2.2005, p. 23).)



accounts are the primary source that reveals the mutual financial flows between households, corporations, financial institutions and foreign sectors. In 2022, the definition of flows between the government and the non-financial corporate sector has improved for the part in which they relate to corporate debt engaged by the government and/or concessions and public-private partnerships.

6. Compilation of government finance statistics in accordance with the ESA2010 standard

The compilation of government finance statistics, for the entire list of institutions classified as sub-sectors of the General Government (in accordance with the ESA2010 standard), was part of the work plan for 2022 of the three institutions (BoA, INSTAT, MFE), supported by the IMF through the project: "On government finance statistics - Excessive Deficit Procedure (EDP) and government financial accounts according to methodological standards and international best practices".

The Excessive Deficit Procedure (EDP) is one of the basic instruments through which the EU fiscal policy framework is implemented, which derives from the Treaty on the Functioning of the European Union (TFEU). The TFEU obliges EU member states to comply with fiscal discipline by respecting two criteria: the ratio of the general government deficit to GDP and the ratio of public debt to GDP. During the year, we were able to fulfil the obligation to transmit to EUROSTAT the quarterly data of the General Government, respectively from the BoA (financial accounts) and INSTAT (non-financial accounts).

7. Harmonization with international standards (IFRS and bank accounting) of regulatory reporting for banking supervision, for banks at BoA in accordance with EBA's ITS for regulatory reporting

An intensive work is done on the adoption of the common framework of the financial reporting standards of banks (FINREP) according to the EBA standard. The process is assisted by FINSAC.

8. Completion of the Financial Soundness Indicators framework and implementation of the changes provided by the new FSI Guide (IMF, 2019)

The implementation of the new requirements has led to the drafting and reporting of new indicators that complete the framework for assessing the soundness of the financial sector, which in particular are related to the activity of other financial institutions, non-financial corporations, individuals and real estate markets. This serves to complete the analytical framework in support of evaluative analyses and macro-prudential policies.

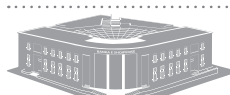
9. Increasing reliance on survey resources along with participation in international research networks



General statistics provide a “first view” of economic issues, but sometimes a more in-depth view is needed, which is achieved by analysing disaggregated and survey-based sources. The appropriateness and speed of monetary policy’s response to disruptions and unexpected circumstances also depends on the ability to see complexities in fine detail. All these are precisely the purpose of statistics.

The statistical work has also included the coverage of surveys which have an international standard format. The Household Finance and Consumption Survey (HFCS), the Survey on the access to finance of enterprises (SAFE), and the Bank Lending Survey (BLS) are part of a growing set of survey resources that provide additional economic insights. The Household Finance and Consumption Survey is conducted by national central banks to assess the effect of financial shocks on households, to achieve a better understanding of household financial decision-making and behaviour, to assess the effects of social, tax, educational and other policies, as well as conduct research on poverty and inequality. It is a joint project of 23 EU member states implemented within the Household Finances and Consumption Network of the ECB. The results of the survey conducted in 2021 were processed and used to enable the comparison of Albanian households with those in the EU. The main findings confirm the relatively high share of fixed assets, while deposits account for the largest share of financial assets, which is comparable to the structure of households’ assets in other EU member states.

The Bank of Albania plans to conduct the Survey on the access to finance of enterprises, which examines the financial needs of this segment of the economy and the obstacles it faces.



2.10. RESEARCH

The Bank of Albania aims to base its decision-making process on the solid foundation of a body of knowledge tested on the Albanian economy. Investment in creating solid research capacities contributes to improving the Bank of Albania's qualitative work, reputation and credibility as an institution with the relevant methodologies and required knowledge to guarantee the macroeconomic equilibriums of Albania. Therefore, the active development of scientific research assumes a primary role in the Bank of Albania's development strategy.

The focus of scientific research at the Bank of Albania in 2022 was the analysis and exploration of economic and financial phenomena in the function of monetary policy and banking stability. Other research efforts were directed towards important issues such as the challenges of the banking system in coping with climate change in the future; improving education and financial inclusion in the country; the research of new phenomena related to technological changes of digitization; as well as issues on international finance and development economics. Research continued to support the decision-making process for formulating and implementing the Bank of Albania's policies through the testing of new computer methods by artificial intelligence, with the aim of enriching the portfolio of economic models used in the central bank.

In the function of monetary policy decision-making and financial stability, research projects continued to pay special attention to economic analyses in uncommon conditions, such as the case of the pandemic or the challenges presented by the potential consequences of global warming. Studies have focused on the efficiency of monetary policy actions carried out through the policy interest rate and the current operational framework, as well as on the role of financial institutions in the context of managing the potential risk that peaks as a result of climate change.

The impact of the pandemic has been analysed through different scenarios that assess the ability of the local economy to renew itself in time. The material examines the instruments made available by the Bank of Albania to understand the reaction of the monetary authority within the current operational framework. It also makes a quick assessment of the easing economic policies, in order to draw appropriate lessons on their use to mitigate unprecedented negative effects in the future.

Other research projects in the function of monetary policy focused on investigating the structure of the central bank's balance sheet as a tool beyond the basic instrument for influencing the money supply; building an indicator of financial conditions in Albania as a tool for evaluating the transmission of monetary policy and determining its appropriate stance; in the research of monetary aggregates as indicators that can inform on price trends in the future;



and in researching the factors that determine the prices of certain food and non-food items.

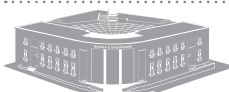
Climate change poses another socio-economic challenge, the effects of which are already evident around the globe. Discussions on green finance have begun to take an even greater part in the agenda of the Bank of Albania. Two separate studies in this area focused first on the perception and definition of various climate problems from the perspective of the central bank, and second on the construction of measurable indicators for climate risks. In addition, the Bank of Albania in cooperation with the World Bank (FinSAC) is devising a strategy for green finance in accordance with international best practices, which will serve the objectives of maintaining a stable banking system, and for orienting green lending with the aim of protecting the environment.

Research projects focusing on financial literacy and inclusion emphasize the challenges that financial education of households presents for the efficiency of monetary policy transmission. Technological changes bring even more uncertainty to countries with insufficient financial literacy such as Albania, the financial literacy of which, unfortunately still remains lower than the average literacy of households worldwide²⁸. For these reasons, financial education has become a strategic priority for the Bank of Albania. In cooperation with the World Bank, a draft strategy on financial education was completed in 2022. This paper will be enriched with the objectives and definition of a clear action plan to promote the growth of financial literacy in Albania. The Albanian Household Wealth Survey (AHWS), conducted by the Bank of Albania, is an important basis for determining the objectives and monitoring the evaluation of the progress of financial education, in accordance with the BoA's strategy. The survey analysis also suggests that financial education and literacy play a key role in the decision to save and on the components of the savings portfolio. The data on the individual balance sheets of over 2,000 Albanian families enable us to recognize and analyse different aspects of the households' behaviour in relation to real and financial assets, exposure to credit, different forms of savings and investments, as well as their consumption.

Research on the function of financial stability are focused on analysis of the financial fragility of Albanian households and those in the region, on the investigation of housing price behaviour and its social-economic implications in the country, on the examination of the progress of the banking system in Albania, and on testing the co-integration of the determinant factors for bank credit.

Two projects are focused on assessing the financial fragility of Albanian households and those in the Western Balkans countries. For housing price monitoring, work has been done to build an index that relies on technological

²⁸ The Survey on Measuring the Financial Literacy of the Population conducted by the BoA in 2019 highlights that households in Albania possess only 53% of the total knowledge, behaviours and proper financial attitudes.



innovation to obtain information found on the web, with the aim of analysing the progress of housing prices on a monthly basis, according to data generated by users. Banking performance is evaluated by its capacity to generate profit, based on the breakdown method of the return on equity (ROE). Other research materials on the credit market in Albania try to shed light on whether there is a long-term co-integrating relationship between demand factors and the bank credit supply, as well as on the role of global factors on credit to the local economy.

Finally, research analyses focusing on development economics have emphasized the importance of “inclusive” economic growth to enable a more equal distribution in society.

These and other studies have become the subject of discussion in activities and conferences organized by the Bank of Albania and other institutions, where comments and remarks are made in order to further improve them. In this framework, on 5-6 December 2022, the BoA organised the “16th Regional Research Workshop in South-East Europe”. This workshop aimed to serve as a discussion forum on the latest research on economic and financial issues and promote the exchange of views among researches from the Bank of Albania, other central bankers, academia in the region and beyond.

More complete and detailed information on the research papers of the Bank of Albania is found on the official website of the Bank of Albania in the sub-category “Publications/Researches and Working papers”. Other research works are published as articles in the “Economic Review” of the Bank of Albania. The semi-annual magazine “Scientific novelties at the Bank of Albania” provides information about newly completed research materials, about those in process, materials presented in the “Friday Seminars”, and on other activities organized by the Bank of Albania throughout the year.



2.11. EUROPEAN INTEGRATION AND INTERNATIONAL COLLABORATION

The Bank of Albania has continued to contribute to the fulfilment of the obligations stemming from the Stabilization and Association Agreement, the Progress Reports of the European Commission, joint EU-Albania subcommittees and the National Plan for European Integration. It chairs two Inter-institutional Work Groups for chapter 2 of the acquis.

The European integration process marked a step forward when the first Intergovernmental Conference (IGC) on accession negotiations was held between the EU and Albania on 19 July 2022, a historic moment in Albania's European integration journey. With the beginning of the negotiations, the process continued with the screening meetings for each chapter of the acquis between the Albanian delegations and representatives of the European Commission, where the European side re-explained the EU legislation regarding new elements for the period of 2019-2022. Meanwhile, bilateral meetings have started to be held for each chapter of the acquis according to the grouping of Chapters. In these meetings, the Albanian side explains the current situation in terms of legalities, institutional considerations and implementation of the legislative framework, highlighting existing legal and institutional or administrative gaps compared to the EU framework for each issue included in the chapter. Also, an important part of these meetings is dedicated to future plans for further alignment with the EU, thus presenting will and clarity in fulfilling the main criteria in each chapter for moving forward with membership negotiations. The bilateral meetings will end in September 2023 and based on them, the European Commission is expected to approve a screening report for each chapter in the EU Council.

The Bank of Albania, as the leading institution for Chapter 4 - Free movement of capital and Chapter 17 - Economic and Monetary Policies, has been maximally engaged preparing these bilateral meetings. It has had a leading role in the coordination of the work with the contributing institutions in these chapters, through frequent meetings of inter-institutional European integration work groups and through cooperation with the Office of the Chief Negotiator. Also, the Bank of Albania contributes to the work of other chapters such as Chapter 9 – Financial Services; the Economic Criterion Chapter; Chapter 32 – Financial Control; and Chapter 18 – Statistics. In addition to these chapters, the Bank of Albania also contributes to chapters 24, 28 and 20.

The Bank of Albania was represented at the annual high-level meeting of the Stabilization and Association Committee and in the meetings of two subcommittees: 1) Domestic Market and Competitiveness and 2) Economic, Financial and Statistical Issues, as well as Economic and Financial Dialogue between the EU and Western Balkan Countries and Turkey. In the above mentioned meetings, issues such as drafting and implementation of monetary



policy, financial stability, indicators and developments of the banking sector, financial inclusion of the population, etc. were discussed at the political and technical level.

In October 2022, the European Commission published the 2022 Report for Albania, which describes the progress made by Albania during June 2021 - June 2022. The report commends the work of the BoA in terms of drafting and implementing its monetary policy, which is considered appropriate and effective. Also, the report commends the BoA's work in the direction of maintaining financial stability and the approximation of legislation in the field of supervision and payment systems.

Relations with the International Monetary Fund

The Republic of Albania continues to have SDR 139.3 million quotas and owns 2,858 votes or 0.06% of the total amount of the votes of all members of the IMF. It is in the same constituency with Italy, Greece, Portugal, Malta, and San Marino. This constituency has a total of 207,948 votes or about 4.13% of total votes of all IMF members. The total amount allocated and disbursed up to 31 December 2022 is SDR 295.2 million.

Albania's relations with the IMF continue to be focused on Article IV consultations. On 7 December 2022, the Executive Board of the IMF concluded the Article IV consultations with Albania, at the end of which it published the assessments on the performance of the Albanian economy and made the relevant recommendations.

Relations with the World Bank Group

The World Bank Group started its work in Albania in 1991 and has supported a number of projects aiming at immediate poverty alleviation and the provision of sustainable and long-term development tools to drive further growth. Albania is part of the constituency composed by Greece, Italy, Portugal, Malta and Timor-Leste.

The World Bank has supported the Bank of Albania in the field of payments, financial supervision, resolution, financial education and inclusion, etc.

Technical cooperation

In September 2022, the German Central Bank and the European Commission launched the second phase of the "Programme for Strengthening the Central Bank Capacities, of candidate countries and potential candidates for EU membership in the Western Balkans" funded by the EU.

This program will further support central banks and banking supervisory agencies in the EU candidate countries and potential candidates of the Western Balkans

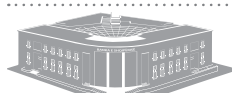


and aims to further strengthen the capacities of the beneficiary institutions, mainly through further improvement of their analytical and policy instruments, through the acquisition of the best international and European standards in national practices. The program is supported by the European Union (EU) through its Instrument for Pre-Accession Assistance (IPA III).

Participation in international conferences, forums and seminars

The following is a summary of international activities, attended by the Administrators of the Bank of Albania:

- On 21-24 April 2022, the Governor of the Bank of Albania, Mr Gent Sejko, attended the Spring Meetings of the International Monetary Fund and the World Bank Group in Washington D.C., USA. Each year, the Spring Meetings bring together central bank governors, ministers of finance of member states and senior officials of international financial institutions.
- On 29 April 2022, Governor of the Bank of Albania, Mr Gent Sejko attended the 8th Research Conference organised jointly by the National Bank of North Macedonia with the European Investment Bank, on "Building resilience in time of crisis: the role of policies". This conference focused on the new duties faced by central banks in the context of dynamic changes in the financial system and new global challenges.
- On 24-25 May 2022, the Governor of the Bank of the Bank of Albania attended the Central and Eastern European Forum (CEE). It is an annual Euromoney event that brings together renowned figures of politics, economy and finance from CEE countries to discuss the latest economic developments in European countries and beyond. Governor Sejko attended the meeting as a discussant in the panel on "Rethinking the role of central bankers".
- On 8 June 2022, the Governor of the Bank of Albania, Mr Gent Sejko, attended the Annual Meeting of the Governing Board of the Centre of Excellence in Finance held in Ljubljana, Slovenia. This meeting was particularly important, as Slovenia handed over the Chairing of the CEF Governing Board to Albania.
- On 22-23 September 2022, the Governor of the Bank of Albania, Mr Gent Sejko, attended the conference on "Is inflation back and in which form?", organised at the Graduate Institute of International and Development Studies, in Geneva, Switzerland. The conference, organised for the 10th consecutive year, in the framework of the BBC (Bilateral Assistance & Capacity Building for Central Banks) programme, aims the sharing of experiences and knowledge among participants, who represent the central banks in partner countries of this programme.



- On 1 October 2022, the Governor of the Bank of Albania, Mr Gent Sejko attended the annual regional summit in Bečići, Montenegro. This year's summit, on "Monetary policy in an inflationary environment" addressed the latest developments in the economies of the region and the current challenge they are tackling due to the upsurge in prices in global markets.
- On 12-16 October 2022, the Governor of the Bank of Albania, Mr Gent Sejko, attended the Annual Meetings of the International Monetary Fund and the World Bank Group, in Washington DC, USA. These meetings are a high-level forum bringing together top level decision-makers in the IMF and the WBG, central bankers and ministers of finance of respective member countries, to discuss the latest developments in the global economy.
- On 21 November 2022, the Governor of the Bank of Albania, Gent Sejko, was invited by the Governor of the National Bank of Austria, Mr Robert Holzmann, to attend the conference on the European economic integration 2022: "Economic and monetary policies under war conditions - implications for the Central European, South and South Eastern countries," held in Vienna, Austria. The purpose of this conference was to analyse the impact of perennial crises such the war in Ukraine, the effects of the COVID-19 pandemic, and climate changes on the economies of the Central, South and South Eastern Europe.



2.12. TRANSPARENCY AND PUBLIC COMMUNICATION

Public communication constitutes an important link in the Bank of Albania's activity, in fulfilling its obligation to provide maximum transparency in its decision-making and effectiveness, as well for achieving the permanent objective of increasing the confidence in this central institution. In this framework, for the Bank of Albania communication with the public is a primary issue of strategic importance, to transmit its monetary policy directly and comprehensively to the public.

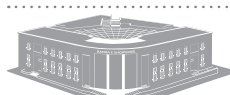
An open and transparent central bank

Beyond legal obligations, the Bank of Albania communicates a variety of information to the public regarding its role and activity, ranging from the decision-making of the Supervisory Council to its daily operational activity. This transparent communication helps increase the effectiveness of policies pursued by the Bank of Albania, allowing the public to understand decisions in a timely and clear manner, and to also be able to fairly evaluate them.

In this context, the Bank of Albania uses a variety of communication channels, in order to explain its role and its main objective more clearly, to maintain price stability as well as the means of its realisation. The year 2022 continued to be a difficult and challenging year for the Albanian economy due to the situation created by the pandemic and communication with the public has responded to the challenges created by this situation. In this context, communication with the public was aimed at informing them about the ongoing measures taken by the BoA for normalization of the monetary policy and the return of inflation to the target.

Monetary Policy strategy is based on a defined decision-making cycle in an annual calendar of 8 meetings of the Supervisory Council. A Governor's press conference is held after each meeting. Its aim is to explain the decision taken by the Supervisory Council and the analysis used to support this decision, to the public. Relevant press conferences were organized in response to this cycle, in 2022, during which the Governor responded to media interest on various issues related to the Bank of Albania. Press conferences were followed by publication of the Governor's speeches and related Q&A, in Albanian and English.

Also in 2022, each meeting was followed by publication of a brief summary of the main decisions taken by the Supervisory Council of the Bank of Albania. All public decisions of the Supervisory Council, as well as orders or acts of the administrators, applicable by entities licensed by the Bank of Albania, were published in full in the Official Bulletin of the Bank of Albania, in 9 issues of this publication.



The Bank of Albania's communication is further complemented continuously and in real time with a number of periodic reports, observations, analyses, data, evaluations and opinions of the Bank of Albania on the macroeconomic situation of Albania and the role of the Bank in supporting its financial stability. Communication with the public is directed toward the interest, academic level and professional training of targeted groups connected with the Bank of Albania, among which, media has an important role. In this framework, the media is continuously informed and sensitized on issues related to the BoA and on the economic and financial performance of Albania. In 2022 as well, communication with the media continued through press conferences, speeches, presentations and press releases held in activities organized by the Bank of Albania or other domestic and foreign institutions. It has continued through interviews or participation in dedicated TV programmes, expression of views on specific issues of interest to the Bank of Albania or other public activities of the Governor and its other representatives. In 2022, the activity of the Bank of Albania was presented to the public primarily through 120 public announcements, press releases, speeches, interviews and participations in TV shows. Seven presentations of its periodic reports were held "off the records" for the media during this year. These meetings aimed to direct the media toward a correct understanding of the decisions made by the Bank of Albania and are seen as effective means of communication with the public.

To promote interaction with the public, in 2022, we introduced digital communication through social networks: Twitter (information), Facebook (financial education), and YouTube (video and Flickr (photo) to present the general activities of the Bank of Albania to the public, in a timely and comprehensive manner.

ACTIVITIES WITHIN THE COUNTRY

- *On 17 January 2022, the Bank of Albania issued into circulation the two consecutive denominations of the new Albanian banknotes series, 500 Lekë and 2000 Lekë, which are legal tender.*
- *On 1 March 2022, Governor Sejko held a meeting with the Minister of Finance and Economy, Mrs. Delina Ibrahimaj, to discuss about the current situation and the expected economic performance of Albania. Their conversation focused on the assessment of possible risks that the Albanian economy may face as the conflict between Russia and Ukraine escalates, and the necessary measures to prevail over the situation.*
- *On 9-11 May 2022 Bank of Albania co-organises with the State Secretariat for Economic Affairs (SECO) the Workshop on "Strengthening research capacity at central banks." The goal of the activity is to share experiences in the field of scientific research among participants of central banks from countries partnered with the BCC programme (Bilateral Assistance & Capacity Building for Central Banks), such as: Azerbaijan,*

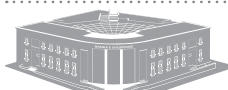


Bosnia and Herzegovina, Columbia, Morocco, Peru, Tunisia, Ukraine and Albania.

- On 27 October 2022, under the auspices of the Governor, the Bank of Albania co-organised with the London School of Economics and Political Science (LSE) the Annual Conference: *Inflation is Back: How to Deal with It under Heightened Uncertainties?*. The Closing Panel with the Governors' Round table brought together in a discussion panel, the Governor of the Bank of Albania, Mr Gent Sejko; the Governor of the National Bank of the Republic of North Macedonia, Ms Anita Angelovska Bezhoska; the Deputy Governor of the National Bank of Hungary, Mr Barnabás Virág; Member of the Board of Directors, National Bank of Romania, Mr Csaba Bálint, moderated by Mr Cristian Popa, Former Senior Advisor to the Vienna Initiative Steering Committee and Former Deputy Governor of the National Bank of Romania. The Governor's panel provided a summary of the recent macroeconomic and inflationary developments, and the reaction of central banks in a new environment with additional foreign uncertainties, and domestic economic weaknesses, which pose more difficulties to the monetary policy's reaction of the central bank, which have as primary objective the price stability and the financial stability.
- On 9 November 2022, the National Payment Systems Committee held its 8th meeting, chaired by, Luljeta Minxhozi, First Deputy Governor of the Bank of Albania. In his greeting speech, the Governor highlighted that, aiming to support the developments in the market, the Bank of Albania, is working on the improvement of payment system aimed at introducing new standards of both communication and services which address the infrastructural needs for the implementation of the strategy.
- On 5-6 December 2022, the Bank of Albania organized the 16th SEE Economic Research Workshop. This workshop aims at providing a a discussion forum on the researchers conducted by the Bank of Albania throughout 2022, and promoting the exchange of views among researchers from the Bank of Albania, other central bankers, academia, and scholars and policy-makers in the region and beyond, on the results of scientific research on issues related to the activity of central banks. During the two-day proceedings, 35 research works will be presented, of which 11 from Bank of Albania researchers.
- On 20 December 2022, on the occasion of the end-of-year, Governor Sejko held a meeting with publicists, politics and economics analysts, and representatives of the media. During this event, the three winners of the Governor's Award for the Best Diploma Thesis 2022 were announced.

A responsible and accountable central bank

The Bank of Albania aims to inform citizens, and in particular the Parliament, on all its activities. Institutional relations with the Assembly develop in several directions, where the most significant ones are the Governor's hearing sessions in the Parliamentary Commission of Economy and Finance (CEF) and plenary sessions of the Assembly. In May 2022, the Governor presented the Annual



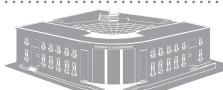
Report of the Bank of Albania to CEF and after, in June to the Assembly of Albania, responding to MP's interest in related matters. As every year, the Governor presented in November 2022, in a special hearing of the CEF, the opinion of the Bank of Albania regarding government's draft-budget for the upcoming year (2023).

More comprehensive and up-to-date information on the financial and economic situation as well as on main macroeconomic developments, and the role and the contribution of the Bank of Albania in this regard, can be found on the official website, www.bankofalbania.org. In 2022, the Bank of Albania continued its regular update of its website, which had around 2.2 million visitors, who visited our website about 6.3 million times, and browsed in total around 9.7 million sections.

Our website is constantly enriched with a broad statistics system for many sectors of the Albanian economy, such as the banking sector, the fiscal sector, the real sector and the external sector, which are published according to a defined schedule that is updated semi-annually. Bank of Albania publications provide detailed and updated information on developments, in Albania and globally, in banking and financial systems, currency and financial stability, amendments and enrichment of banking legislation and its regulatory framework, as well as other relevant issues. Bank of Albania publications are consolidated sources of accurate and reliable information for the public.

Periodic and non-periodic publications, in 2022, consisted of about 4900 pages of analyses, statistics and research in both Albanian and English. The set of periodic reports was the same as in the previous year: Annual Report, Quarterly Monetary Policy Report (quarterly), Financial Stability Report (semi-annual) and Supervision Report (Annual). In addition to periodic reports, the following were published with the Official Bulletin (depending on the meeting of the Supervisory Council): the semi-annual Economic Magazine of the Bank of Albania, the semi-annual magazine "Research newsletter", as well as various study and educational papers. In 2022, the Bank of Albania continued to distribute for free all of its publications, taking into account the social responsibility regarding reducing paper publications.

In order to inform the public, the Bank of Albania informs its citizens in writing or in electronic form, depending on how they want to receive this information. In 2022, 75 official requests addressed to the coordinator were answered. A total of 1623 correspondences with departments within the Bank of Albania and the general public for information, or with complaints and questions regarding the banking system, were received by the Bank's official contact address at public@bankofalbania.org.



2.13. FINANCIAL EDUCATION

Public financial education is a significant part of the activity of the Bank of Albania. It is realised through educational activities and programmes, visits at the Museum, exhibits, as well as periodic and non-period publications. Two are the main goals of the activities prepared by the Bank of Albania: presenting the central bank, its functions and role to the public; and cultivating and strengthening financial literacy in the Albanian society.

Educational publications

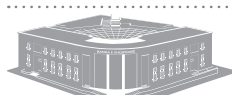
In 2022, the distribution of textbooks, "Personal finances in your hands" for 7 high schools, which have chosen this book as their schoolbook (a total of 800 textbooks) has continued as well as the distribution of brochures and educational materials prepared in previous years mainly for Museum visitors and participants in the educational activities of the Bank of Albania.

The Museum of the Bank of Albania

Since October 2015, the Museum of the Bank of Albania has already been added to the diverse mosaic of museums as an added value and at the same time precious in the field of numismatic and banking history in our country. Organized to provide historical knowledge, spiritual heritage, as well as educational environments, the Museum of the Bank of Albania naturally promotes the learning processes of young people and schoolchildren, in other new, inspiring dimensions, different from traditional learning processes.

In 2022, the Museum was visited by about 3200 visitors. The majority of visitors are children and students of secondary schools or high schools. Visitors under 18 years old account for around 69% of the total number of visitors. A tradition has already been created where schoolchildren, as well as university students, return to the Museum of the Bank of Albania to conduct a one hour of lecture in addition to the guide.

Attention has been given to the 18th of May each year which is the International Day of Museums. On this day, the Museum of the Bank of Albania remains open to the public during extended hours and without restriction on the number of visitors. In accordance with the international theme of this day, "The Power of Museums", in cooperation with the General Directorate of Archives, for the provision of original documents, two temporary exhibitions were opened in the Museum's premises with the following themes: "Efforts to create the central bank, 1913-1926" and "Dr. Pas / Mitrush Kuteli, his prominent personality as an economist and banker". The International Day of Museums was closed with an open lecture held at the premises of the Bank of Albania by the Director of the National Historical Museum, Dr. Dorian Koçi.



During the month of October in 2022, three lectures were held as part of the “Museum Nights” cycle, now a tradition for the Museum, held by researcher Gjon Boriçi, publicist Bajram Peçi and collector Artan Lame. The topics presented in these lectures have been quite interesting and have attracted the attention of the public to be regular participants in them.

Promotion of the numismatic collection of the Bank of Albania

At the Museum of the Bank of Albania, visitors and the general public can buy items from the numismatic collection of Albanian coins and banknotes. The number of people interested in purchasing items from this collection remained high even during 2022.

Prices for items from the numismatic collection are published on the official website of the Bank of Albania. To whom it may interest, the “Catalogue of Numismatic Collection” was published at the e BoA Museum online Store, which presents numismatic items for sale with pictures, information on emissions and related prices.

National Strategy for Financial Education and Financial Inclusion

The year 2022 marked the beginning of the BoA’s efforts in cooperation with decision-making authorities and other market actors to design and implement a national strategy for financial education, which will aim to improve the culture and financial inclusion of the general public. In close collaboration with academic and financial market actors, it will focus on developing and coordinating research and analytical work on goal setting, designing education and financial inclusion programs, communication, creating implementation instruments, monitoring and evaluation of the progress of the strategy, communication, measuring the effectiveness of financial education programs at the national level and finally, it will focus on the adaptation and implementation of a “National Strategy for financial education”.

Awareness campaign “Neither old nor new, I am simply Lek!”

In 2022, the Bank of Albania continued raising public awareness about the misreading of the value of the national currency, as part of the “Neither old nor new, I’m simply Lek” campaign.

During this period, several communication channels were used, such as:

- cooperation with banks and the Albanian Association of Banks for the promotion of the campaign slogan and its poster on social networks, websites, ATMs, publications, etc.;
- cooperation with the Audio-visual Media Authority for media awareness and compliance with the standard in the presentation of monetary values during broadcasts, news editions and entertainment programs;



- cooperation with the media for the realization of several shows and interviews for the transmission of campaign messages to the general public;
- cooperation with the Ministry of Education and Sports for the organization of lectures in primary and middle schools, High schools, and universities to help disrupt this 55-year-old chain and not transmit it to the new generation.

The Bank of Albania once again calls on the public to leave behind once and for all the use of this wrong terminology in economic and financial relations, to finally turn it into a linguistic relic. The Bank of Albania reiterates that our currency is neither old nor new, but it is simply Lek!

Educational activities

On 24 March 2022, in the premises of the Bank of Albania, the celebration ceremony of the Global Money Week for 2022 was organized, under the slogan, "Build your future, and be smart with your money! The Governor of the Bank of Albania, Mr. Gent Sejko, the Minister of Sport and Education, Ms. Evis Kushi, and the Chairman of the Albanian Association of Banks, Mr. Bledar Shella addressed the ceremony. The Bank of Albania participated for the eighth time in this celebration, where in cooperation with the Albanian Association of Banks and with the support of the Ministry of Education and Sports, and the Deposit Insurance Agency, they organized educational and awareness activities, including for over 8000 pupils and students, from more than 140 schools of all levels, from all over the country. The activities included 5 school contest & competitions, lectures in university auditoriums, as well as lessons in secondary and high schools.

